1978 Borden, Inc. Annual Report

BORDEN


Wall-Tex
Passport Collection
BORDEN
CHEMICAL
DURITE
PHENOLIC RESIN POWDER
CDP
Regular
PRINTING INKS
Process Yellow
8 pc Storage Bowl Set
the organizer
deskmate
message rack
things box
pencil cup
Resinite
mirra-coat
friction tape
utility
tape
package tape
cloth
fabric tape
freezer tape
plastic tape
cushion grip
KRYLON
ELMER'S
CONSTRUCTION ADHESIVE
TILE GROUT
FLOOR TILE ADHESIVE
CONTACT CEMENT
REDI-SPACK
WONDER BOND
Slide-All
MYSTIK

BORDEN

Financial Highlights

(In thousands except per share and percentage amounts)

	December 31 1978	1977*	Percent Change
Operating Results (for the year)			
Net sales	$3,802,559	$3,481,278	+ 9.2
Income taxes	84,300	93,400	− 9.7
Net income	135,827	126,908	+ 7.0
Net income per common share and equivalent:			
Primary	4.38	4.07	+ 7.6
Fully diluted	4.19	3.89	+ 7.7
Dividends:			
Common share	1.68	1.52	+ 10.5
Preferred series B share	1.32	1.32	
Total dividends	52,068	47,165	+ 10.4
Capital expenditures	167,003	156,876	+ 6.5
Financial Position (at year-end)			
Working capital	$ 527,174	$ 525,201	+ 0.4
Current ratio	2.0:1	2.1:1	
Shareholders' equity	1,072,194	1,022,154	+ 4.9
Equity per common share	35.81	32.79	+ 9.2
Common shares outstanding	29,895	31,105	− 3.9

**Restated as explained in Note 3 and reclassified to conform with account classifications adopted in 1978.*

CONTENTS

Directors

BOARD OF DIRECTORS

JESS N. DALTON
Senior member of law firm
Goodrich, Dalton, Little & Riquelme
(Mexico City, Mexico)

JAMES D. FINLEY
Chairman and Chief Executive Officer
J.P. Stevens & Co., Inc.
(Textiles)

AUGUSTINE R. MARUSI
Chairman and Chief Executive Officer

BERNARD NEMTZOW
Senior Vice President

WALTER R. OLMSTEAD
Former Vice Chairman

WILLIAM S. RENCHARD
Chairman, Directors Advisory Committee
Chemical Bank

W. THOMAS RICE
Chairman Emeritus
Seaboard Coast Line Industries, Inc.
(Railroads)

PATRICIA CARRY STEWART
Vice President
The Edna McConnell Clark Foundation
(Charitable foundation)

EUGENE J. SULLIVAN
President and Chief Operating Officer

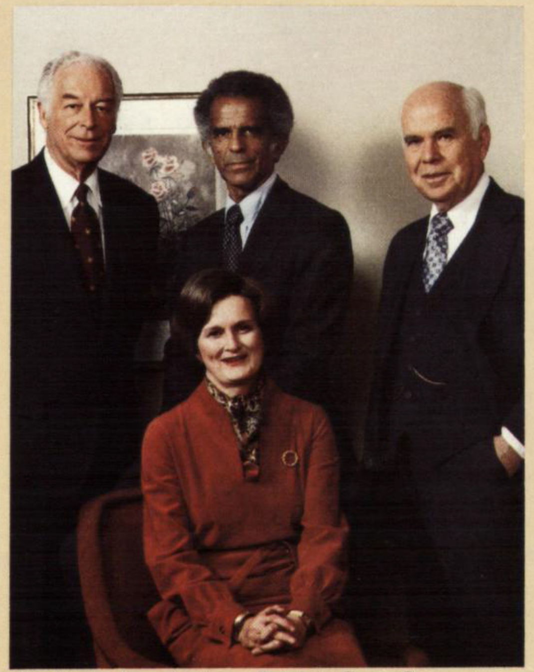
WILLIAM K. WESTWATER
President
Westwater Company
(A business management firm,
Columbus, Ohio)

FRANKLIN H. WILLIAMS
President
Phelps-Stokes Fund
(Educational foundation)

ADVISOR TO THE BOARD

ROY D. WOOSTER
Former Chairman

From left: W. Thomas Rice, James D. Finley, William S. Renchard, Augustine R. Marusi.



Clockwise from bottom: Patricia Carry Stewart, Jess N. Dalton, Franklin H. Williams, Eugene J. Sullivan.

From left: Walter R. Olmstead, Bernard Nemtzow, William K. Westwater.

Officers

PRINCIPAL OFFICERS

AUGUSTINE R. MARUSI
Chairman and Chief Executive Officer

EUGENE J. SULLIVAN
President and Chief Operating Officer

ROBERT W. GUTHEIL
Vice President-Chemical Division

MARVIN J. HERB
Vice President-Dairy and Services Division

JAMES D. MILLIGAN
Vice President-Foods Division

JOHN J. O'CONNOR
Vice President-International Division

MAX A. MINNIG
Vice President-Borden Gas Resources

BERNARD NEMTZOW
Senior Vice President

FRED J. BOARD
Vice President-Corporate Development

JOHN B. CARNAHAN
Vice President-Purchasing and Distribution

LAWRENCE O. DOZA
Vice President and General Controller

JOHN V. LYNN
Vice President-Engineering

JOSEPH E. MADIGAN
Vice President and Treasurer

ALLAN L. MILLER
Vice President-Employee Relations

ROBERT G. TRITSCH
Secretary


Robert W. Gutheil


Marvin J. Herb


James D. Milligan


John J. O'Connor


Max A. Minnig


Bernard Nemtzow


Fred J. Board

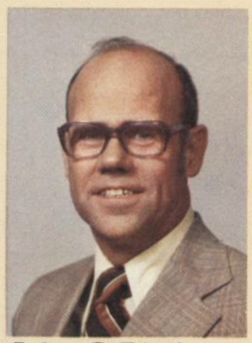

John B. Carnahan


Lawrence O. Doza


John V. Lynn

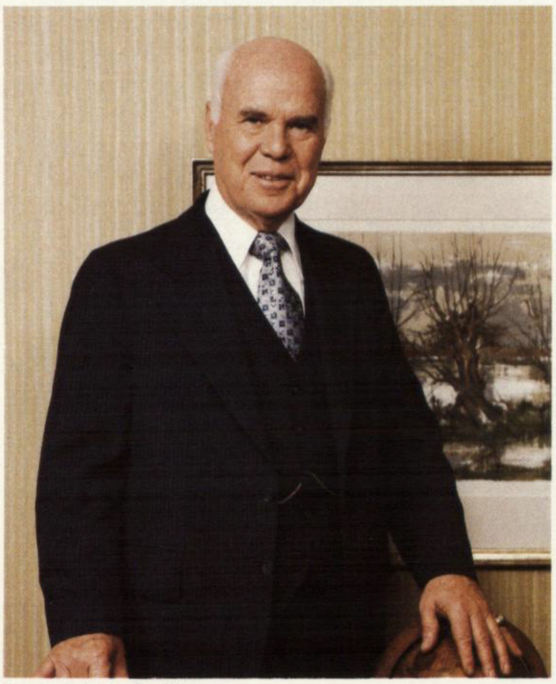

Joseph E. Madigan


Allan L. Miller


Robert G. Tritsch

Message to Shareholders and Employees

Augustine R. Marusi
Chairman and Chief Executive Officer



Eugene J. Sullivan
President and Chief Operating Officer

The Company achieved another year of record results, its ninth in a row, but under conditions surprisingly more difficult and certainly more unpredictable than those encountered even in the deep-recession year of 1975.

In 1975, there was a sharp rise in unemployment along with double-digit inflation, an experience without precedent in American history. In 1978, the economy conformed to classical theory: the rate of unemployment declined slightly, the rate of inflation increased, and there was modest but real economic growth. Yet, in many ways, the behavior of the economy in 1978 was more roguish than ever before, forcing American industrial management to concern itself more than usual with tactical decisions and diverting its attention from more customary strategic planning.

Unquestionably, the decline in the value of the dollar relative to the currencies of other major industrial nations had a heavy impact on the American economy. But, to a troubling degree, there was also a decline in the confidence of the American people in the dollar. These two forces, in tandem, had a highly disruptive influence on the conduct of American business. We could see the effect on Borden as a whole, and on its operations separately. Net income of the Company, for example, was reduced by about $7.7 million, or about 25 cents per share, because of net foreign exchange losses. Nevertheless, net income in 1978 increased 7% over 1977, so that earnings per share of $4.38 were achieved compared with $4.07 a year earlier.

Our International Division conducts its business almost entirely outside the United States, and in a score of currencies; a devalued American dollar, it would appear, could have only beneficial results. The Division *did* establish new highs in sales and operating income, but the rate of improvement, although substantial, was diminished by the effect of the dollar's decline on the Division's powdered milk business.

The American public's diminished confidence in the dollar showed itself in several ways, all of them inimical to a well-grounded, steadily growing

economy: reduced savings in proportion to income; increased debt, and "hedge-buying" of homes and durable goods. These actions served to speed the inflationary spiral and promote at best a temporary, and at worst a false, prosperity in some key industries.

From the narrow perspective of Borden, hedge-buying of homes helped our Chemical Division's resins business, but the overheated, excessively consumption-oriented domestic economy attracted an inordinate number of overseas competitors to the U.S. market, and on balance the Division's results were adversely affected; income declined for the first time since 1969.

Hedge-buying of durable goods reduced consumers' income available for spending on food; measured by tonnage, the food industry overall showed no growth in 1978. However, for several years now we have been repositioning our Foods and Dairy and Services Divisions in areas of the food business that show above-average growth potential. As a consequence, the Foods Division in 1978 achieved higher sales and a 7% increase in operating income, compared with a year earlier, and the Dairy Division reported record operating income on sales that went above a billion dollars for the first time. Satisfying as these accomplishments are to us as a company, we recognize that the American public would be much better served by more broadly based, steadier, and therefore less inflationary, growth in the food industry.

Borden has pledged its full support of the Administration's program to fight inflation, consistent with the legitimate interests of its shareholders, employees, and customers, and is scrupulously adhering to the recommended wage and price guidelines -- even though the very act of compliance is adding substantively to our administrative costs.

Inflation, in its pervasiveness, has caused us to redouble our efforts to generate continued healthy growth through internal development, and has prompted us to pursue acquisitions in the domestic food field as a supplemental source of growth. Early in 1979 we welcomed The Creamette Company, a leading pasta manufacturer, into the Borden family of food products. Additional acquisitions are being investigated. It is anticipated that newly acquired operations, at home and abroad, will contribute some $100 million to our 1979 sales, bringing with them above-average contributions to our operating income.

We wish to express to the men and women of the Borden organization, the members of the Board of Directors, and the shareholders our appreciation for their generous efforts and support during the past year.

Augustine R. Marusi
Chairman and
Chief Executive Officer

Eugene J. Sullivan
President and
Chief Operating Officer

February 27, 1979

IN MEMORIAM
Harold W. Comfort died April 6 at the age of 81. He was associated with Borden for 60 years, serving as President from 1956 to 1964, as a Director from 1938 to 1969, and subsequently, until his death, as an Advisor to the Board. Although steeped in the dairy industry, he was an enthusiastic advocate of the Company's diversification into specialty foods and chemicals. He not only perpetuated the qualities with which Borden is identified; in many ways, personal and professional, he also personified them. The Company's heritage is richer for his service.


New Idea Cookbooks
WHIPPING CREAM
Colonial
pure cane
sugar
WT. 5 LBS. (2.3 kg)
BORDEN
NONE SUCH
MINCE MEAT
NET WEIGHT 28 OZ. (1 LB. 12 OZ.)
REALEMON
reconstituted
lemon
juice
natural strength
NET 32 FL. OZ. (1 QT.)
BORDEN
EAGLE BRAND
SWEETENED CONDENSED MILK

Borden Foods

	1978	1977
Sales (in millions)	**$1,067.8**	$1,027.8
% of Total Sales	**28%**	30%
Operating Income (in Millions)	**$ 56.2**	$ 52.6
% of Total Income from Operations	**20%**	19%

Operating income of Borden Foods increased 6.9% from a year earlier on a 3.9% gain in sales. The income was second only to the record high of $58.5 million in 1974, when the results were distorted by the inflationary surge in sugar.

The improvement in operating income was due primarily to higher sales and cost efficiencies. The more moderate growth in dollar sales reflected the withdrawal from some marginally profitable lines of business, including the Calo pet food operations and the Comstock/Greenwood canning operations.

Almost all product categories showed improved results, and several categories -- including some of the Division's most important -- showed record results.

GROCERY PRODUCTS GROUP

The Grocery Products Group, which represents a third of the Division's total dollar sales, had an excellent year.

Eagle Brand sweetened condensed milk, the company's original product, had its best year ever, with case sales up substantially from 1977. The record results reflect the success of the market repositioning of condensed milk as a conventional dessert starter. In October, a two-stage continuous evaporator was placed in production at the Starkville, Miss., facility to increase capacity and reduce energy consumption.

None Such mince meat enjoyed a good year in spite of sharply higher raw-ingredient costs (notably for raisins) that pushed selling prices to a level that retarded tonnage growth.

Sales of Kava, the unique 90% acid neutralized coffee, were equal to the prior year despite significant overall coffee market declines. In the latter part of 1978, both the category and Kava recorded volume gains in response to the downward trend in green and roasted coffee prices.

ReaLemon reconstituted lemon juice had an improvement in volume sales. The Federal Trade Comission, in November, issued a decision in a case involving the product, reversing an earlier determination of an administrative law judge that would have required compulsory licensing of the ReaLemon trade mark without compensation to Borden, but finding that Borden maintained a "monopoly power" in lemon juice. The company has appealed the latter finding to the U.S. Circuit Court.

Wyler bouillon achieved record volume and profit results in 1978, maintaining the brand's strong leadership position in this category.

The Wyler drink mix operations showed improvement from the severely depressed levels of a year earlier,

Creamy Fruit 'n' Nut Cheesecake is only one of 395 recipes in the collection of seven New★Idea Cookbooks developed by the Borden Kitchens and being offered for sale to consumers. The Cookbooks are illustrated with 160 color photographs/Unique to Borden is Yogurt Shake, a lowfat yogurt beverage in four flavors being tested in several Far West states.

but results nonetheless remained below those of 1976 and earlier years. New competition from brands well-established in single strength and frozen products further fragmented both the sweetened and unsweetened drink categories. Wyler's improvement was traceable to three factors: a shift in advertising and promotion strategy which better supported key products in important markets; cost savings at all levels in the operation, and the consolidation of marketing and sales activities. Early indications for 1979 point to continued improvement in this segment.

To broaden Wyler's impact on the total soft drink business, single-strength lemonade and fruit punch in 12-oz. cans were tested under the Wyler brand name through a network of franchise bottlers. Based on test results, this line will be selectively expanded in 1979.

The Division's presence in the growing beverage market was further enhanced with the introduction of test market products in two additional categories, one of which — yogurt shakes — is exclusive to Borden. Borden Yogurt Shake, in cans, is being tested in several Far West states, and market expansion is under consideration for 1979. The product is available in strawberry, raspberry, blueberry, and orange flavors.

Under the Bama brand name, a line of glass-packed fruit drinks containing 10% natural fruit juice was introduced in key South and Southeast markets in September, with excellent initial response. The drinks are packed in 10-oz. single-serve containers, and offered in apple, orange, fruit punch and grape flavors. Extensions into adjacent marketing areas are scheduled for 1979.

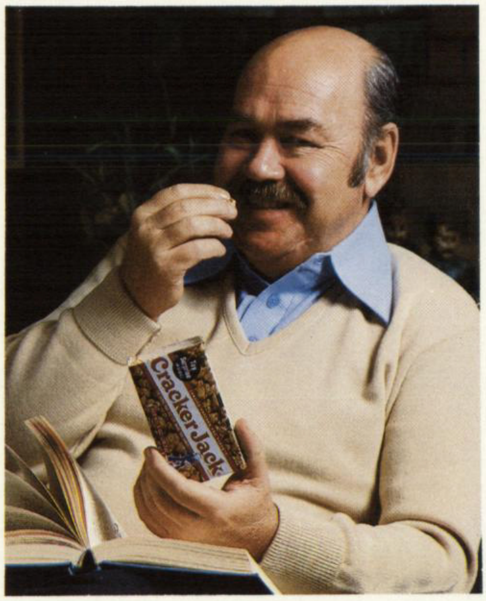
Jam, jelly and preserves from Bama continued to be a steady volume and profit contributor despite weak trends in the overall category. The industry trends are in part traceable to reduced emphasis on breakfast as a family meal and the growth of a breakfast trade among fast food operators.

Sales of Sacramento tomato juice were substantially higher than the prior year. However, industry-wide inventories of tomato products were at an all-time high which caused severely reduced selling prices. As a result, earnings from Sacramento operations were depressed.

Consistent with the company's policy of de-emphasizing manufacturing operations that are highly seasonal and vulnerable to volatile commodity pricing, the company is engaged in negotiations for the sale of the canning plant at Sacramento, Calif., but will retain the business and brand names. Sacramento brand products would continue to be marketed by the Grocery Products Group, but processed by a co-packer, allowing a substantial reduction in distribution cost and working capital requirements.

Snow's seafood canning operations reported level volume and moderately higher dollar sales, but margins were adversely affected as raw-product costs outpaced price increases. In 1978, the cost situation was aggravated by a strike involving part of Snow's fleet of clam boats.

Two events which occurred late in the year are expected to benefit Snow's results in 1979. One was the opening, in October, of a new clam shucking facility at the Cape May, N.J., receiving plant. Plant capacity has been boosted ten-fold with a simultaneous 90% reduction in energy usage. Expansion of capacity at Cape May permitted the closing of a small clam shucking operation at Point Pleasant, N.J.



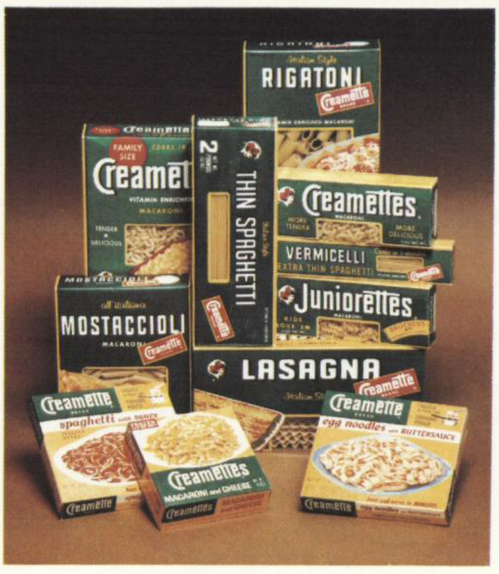
Cracker Jack candied popcorn had its best year ever; enough was sold to provide every person in the U.S. with two packages of the famous confection.

Also, in November, Snow introduced single-serve chowders on a limited basis. The products are expected to appeal to a new group of consumers who were not in the market for multiple-serving chowders. In a further move to maintain its position as a leading producer of clam chowder, Snow introduced Ocean Harvest clam chowder, a more economical brand using a less costly formulation.

CHEESE PRODUCTS GROUP

The Cheese Products Group had its most successful year in the 50 years that Borden has been in the cheese business, with both sales and profit showing significant gains. Consumer interest in cheese products continues to grow, with per capita consumption reaching a new high in 1978. All major segments of Borden-branded business showed sales gains for the year, led by low-calorie slices. Borden Lite-line, the original low-calorie product in the fast growing slice category, maintained its leadership position and was supported by an all-time record marketing investment for a single cheese item within Borden.

Other branded cheese products underwent packaging changes to take advantage of the widespread popularity and recognition of Elsie, the Borden Cow, including the repackaging of branded natural cheese, which is now receiving sharply



Borden Lite-line, the original low-calorie product in the fast-growing slice category, held its leadership position in 1978 with the support of the largest marketing investment ever for a single Borden cheese product/Borden Foods is the largest manufacturer of soft-ripened cheeses in the U.S., including the exclusive Liederkranz brand/The Foods Division entered a totally new area of the U.S. food business in February, 1979, when Borden acquired The Creamette Company, a leading distributor and manufacturer of pasta.

increased sales and marketing emphasis.

Selling prices and margins were much firmer in 1978 as the industry experienced a more stable supply and demand pattern.

In capitalizing on the heavier demand, Cheese Products had the benefit of two additional lines for manufacturing and packaging individually wrapped slices; the lines were installed at Van Wert, Ohio, which is now a major source of supply, supplementing production at Plymouth, Wisc.

The Division's Swiss cheese plant, at New London, Wisc., is undergoing an expansion that will increase production about 30%. The project is scheduled for completion in September, 1979.

CONFECTIONERY GROUP

The Confectionery Group enjoyed a record year in sales and profits. Each product line in the group -- Cracker Jack, Campfire marshmallows, Flavor House nuts, Deran confections and Chicago Almond products -- posted increases in both dollar sales and tonnage. Cracker Jack benefited substantially from a new advertising campaign, consumer promotions and a national roll-out of a foil bag line marketed through snack distributors. As a result, enough Cracker Jack was sold to provide every person in the United States with two packages of this famous confection. Results for Deran confections were aided by an upgrading of the product mix, with more marketing emphasis on boxed chocolates and sales of chocolate-related products. The Confectionery Group, responding to the public's increased interest in Cracker Jack "toy surprises," assembled 50 of the most popular toys, packed them as a unit, and marketed them as a Halloween treat in two test cities. Expansion of the "new" product into other markets is planned for 1979.

SNACK GROUP

The Snack Group also turned in a record performance, as dollar sales increased from a year earlier. The results were paced by successful market segmentation of Wise's potato products and corn based snacks, including tortilla chips, taco and nacho-cheese flavors. Bread snacks, led by Old London melba toast and rounds, also registered significant gains. Wise's market segmentation for potato products reflects the outstanding consumer acceptance accorded Wise Lights, the new, all-natural, light colored potato chip, and Ridgies, a rippled potato chip.

The significant improvement in results of the Snack Group was achieved in spite of a sluggish first quarter caused by severe snow storms in the East and Northeast, which are major markets for Wise and Old London products. The storms closed many schools, offices, and factories, which are important outlets, besides disrupting deliveries to those outlets that continued to function.

BAKERY GROUP

The Bakery Group, operating under the Drake's brand, encountered a series of problems that unfavorably impacted operating results for the year.

As with the Snack Group, business for the first quarter was disrupted by severe weather conditions in the Northeast, Drake's major marketing area. Also in the first quarter, the baking industry in the New York area

Snow's is among the best-known brands in canned seafood; it is the largest-selling New England-style clam chowder in the U.S.

underwent an 11-day strike that curtailed sales and production at Drake's Brooklyn, N.Y., and Wayne, N.J., plants. In the fourth quarter, sales in the New England area were again halted for five days by an industry work stoppage involving driver-salesmen.

All these problems occurred at a time when Drake was also encountering substantial start-up and consolidation costs at its expanded main bakery at Wayne. More than 60,000 square feet of space were added to the facility, and extensive equipment was installed. Bakery operations previously conducted at Irvington, N.J., were consolidated at Wayne.

SUGAR GROUP

The Sugar Group, which is engaged in the refining and marketing of cane sugar for consumer and industrial use, experienced another fine year, although results were below the exceptional levels of a year earlier.

The Sugar Group was substantially impacted by changes in the Government support program which increased fees on imported raw sugar. While stabilizing domestic raw sugar prices, the support program has curtailed trading opportunities in the world market.

The cost efficiency of the Division's major refining operation, at Gramercy, La., was considerably enhanced with the completion of a multi-phase, multi-million-dollar modernization project. In October, the refinery's bank of batch kilns was

Campfire marshmallows set an all-time high in unit sales/The Foods Division's presence in the growing beverage market was enhanced with the addition of Bama fruit drinks with 10% fruit juice and Wyler's single-strength canned drinks. They join Wyler's long-established presweetened drink mixes and the unsweetened drink mixes, introduced in 1977.

replaced with equipment for the continuous regeneration of bone char. The char is used as a filter in the refining process; accumulated impurities in the char are then burned off and the char is reused. The new equipment effects substantial savings in labor and energy costs over the previous batch system.

REORGANIZATION COMPLETED

A major reorganization of the Foods Division, under way since 1975, was completed in September with the conversion from a profit center structure to a centralized line organization for the six product groups reported above.

ADVERTISING/PROMOTION

Expenditures for advertising and promotion remained at a high level as the Division gave strong support to its established products, the extension of existing products to new markets, and introduction of new products in test markets. The Division was again the major participant in Borden sponsorship, for the third year, of a "Home for the Holidays" special advertising section, the largest single print campaign in the company's history. The section, featuring Borden Kitchen-Tested recipes as well as holiday decorating ideas, ran November 12 as six consecutive pages in the three biggest Sunday newspaper supplements: Parade, Family Weekly, and Sunday Magazine. The three supplements appeared in Sunday newspapers that reached more than two-thirds of American households. The ad campaign was supported by the trade with in-store product displays, promotional materials, and suggestions for "tie-in" opportunities with other, non-competitive, food products.

The Division's Consumer Affairs Department, which is responsible for the Borden Kitchens, consumer communications, and product information, developed four additional New★Idea recipe books during the year, bringing the total to ten. Published in 1978 were recipe books on Sacramento tomato juice and Tomato Plus, Lite-line cheese, Wyler's bouillon, and Snow's clams and clam chowder. Seven of the New★Idea books have been collected in a permanent ring binder; the collection of 395 recipes and 160 color photographs is being offered for sale to consumers at $5.95.

The Consumer Affairs Department responded to more than 52,000 written and telephone inquiries from consumers during the year.

NEW FOOD AREA

In February, 1979, the Division entered a totally new area of the domestic food business when Borden acquired The Creamette Company of Minneapolis, Minn. Creamette is a leading distributor and manufacturer of "pasta" (a term that encompasses macaroni, spaghetti, noodles and other similar products made from hard wheat), under the "Creamettes" brand.

Creamette and its quality products position Borden solidly within the main meal segment of the food industry and offer attractive integration opportunities with other Borden food items, especially cheese and tomato-based products.

OUTLOOK

Borden Foods anticipates further growth in 1979, even with the uncertainties created by the government's price guidelines and the prospect of a slowdown or halt in national economic growth. The optimism stems from several sources: a broader product line, market expansion as well as deeper market penetration, and efficiencies resulting from functional reorganization completed in 1978.

On the cost side, the Division's withdrawal in recent years from several lines of business heavily dependent on volatile crop supplies has substantially reduced inventory risks as well as carrying costs. Among the continuing operations, those relying on milk and raw-sugar supplies will face higher costs, but can also expect adequate supplies, healthy demand, and reasonable selling prices.

Borden Dairy and Services

	1978	1977
Sales (in Millions)	**$1,061.6**	$ 982.8
% of Total Sales	**28%**	28%
Operating Income (in Millions)	**$ 45.8**	$ 44.4
% of Total Income from Operations	**16%**	16%

Sales and operating income of Borden Dairy and Services set all-time highs. Sales rose above one billion dollars for the first time.

The gain in dollar sales reflected not only generally higher selling prices across virtually the full range of products but also higher unit volume in fluid milk, cream, and fruit beverages, and in the Division's specialty operations.

In spite of abundant raw-milk supplies, their cost continued steadily upward because of federal pricing formulas and cooperative premiums, putting a further squeeze on margins in the dairy operations. In some of the highly competitive markets, price increases that were initiated to offset the higher costs were either inadequate, or met with competitive resistance; the latter effect was more evident in frozen desserts.

Borden ice cream sales benefited from growth in novelty items and increased consumer preference for higher-margin "all-natural" products. Additionally, the Division secured substantial new supermarket distribution of ice cream in New England and Texas.

Cracker Jack ice cream bars continued to gain in popularity; the product's availability was extended to

A new line of Borden "All Natural" quality ice cream products is being introduced to capitalize on the expanding market for natural, nutritional foods.

North Carolina and South Carolina markets during the summer.

The full line of ice cream packaging is being redesigned, and standardized by type of product. The new packages will appear in all markets in 1979. The redesign features full-color graphics that emphasize product type and flavor for easy consumer identification in the store freezer.

Lady Borden ice cream, introduced in 1947 as the country's first nationally distributed premium ice cream, is undergoing formula changes which will improve the quality above its present high level. Also, a new line of Borden "All Natural" quality ice cream products is being introduced to capitalize on the rapidly expanding market for natural, nutritional foods. The marketing approach will be augmented by new ingredient and nutritional labeling on all Borden ice cream products.

YOGURT MARKETS EXTENDED

Yogurt production will be supplemented by the opening of the Sulphur Springs, Tex., cultured products plant in early 1979. This plant will produce a full line of yogurts, cottage cheese, sour cream and dips in order to cover the increased demand for these products. Lines for processing Borden fruit juices and fruit drinks will be added late in 1979.

The continuing vigor of the total yogurt market is indicated by the Division's success in extending the product's distribution: Lite-line Swiss-style yogurt went on sale for the first time in Rochester, Syracuse, and Buffalo, N.Y., and Baltimore, Md., and

The Division developed new fruit bases for its line of all-natural, fruit-on-the-bottom yogurts: Sundae Style. New yogurt markets were added in New York State and Maryland/Cracker Jack ice cream bars continued to gain in popularity; distribution was extended to North Carolina and South Carolina markets during the summer.

The Division's industrial foods unit began supplying encapsulated flavors of volatile oils such as peppermint to leading manufacturers of chewing gum.

achieved deeper penetration of the St. Louis and Cleveland markets. In general, per-capita consumption of yogurt products is higher in northern than in southern markets.

The Division also developed new bases for its line of all-natural, fruit-on-the-bottom yogurts: Sundae Style. These new improved fruit bases were developed by the Division's industrial foods unit.

The shift in consumer preference to low-fat milks, a trend that has been under way for several years, continued in 1978. The Division, consequently, gave renewed marketing emphasis to its premium low-fat milk, Borden Hi-Protein, expanding its distribution from southwestern into southeastern markets. The result was a substantial sales increase throughout the southern states. In 1979, the product will be introduced in additional major areas served by the Division.

The demand for Borden-brand cottage cheese picked up as the year progressed. The improvement was traceable to the heavy support given a New*Idea cottage cheese recipe book developed in the Borden Kitchens. The 36-page, full-color book, with 63 recipes, was promoted extensively on radio and in magazine and newspaper advertisements, as well as on the side panels of all Borden cottage cheese cartons. Over 55,000 copies had been distributed by year end. Additionally, in order to emphasize the high quality of Borden brand cottage cheese, samples were entered in the New York State Fair and won first honors in this product category.

Two new flavors of sour cream dips -- Avocado and Green Chili -- were developed and marketed regionally, bringing the line to five flavors. The Division also markets three flavors of dips made with vegetable fat; the packaging for this line has been redesigned and will appear in 1979.

NEW DISTRIBUTION BRANCHES

More than a dozen capital projects to improve the efficiency of dairy operations were completed during the year, two-thirds of them involving ice cream facilities. New ice cream distribution branches were opened at Garland, near Dallas, Tex., and at Woodbridge, N.J.; the latter replaces a branch at Paterson, N.J. In 1979, a milk distribution plant, served out of Tampa, will be constructed to serve the St. Petersburg, Fla., area, and ice cream storage facilities at Stratford, Conn., will be substantially enlarged to handle the new ice cream business to supermarkets in New England.

The Division's specialty operations had another fine year, with both sales and operating income above the record levels of 1977 in spite of a lengthy strike experienced by the soft-drink unit during the peak selling period.

The industrial foods unit, which supplies ingredients to other manufacturers, enjoyed its best year to date, its results spurred by breakthroughs into several new business areas. During the year it began supplying, out of its Corona, Calif., plant, encapsulated flavors of volatile oils such as peppermint, wintergreen, and spearmint to leading manufacturers of chewing gum and to major pharmaceutical firms. It also developed encapsulated cheese and butter flavors for marketing to snack food manufacturers; such flavors in encapsulated form significantly lengthen the shelf life of the finished products.

At its Brooklyn, N.Y., facility, the industrial foods unit installed an aseptic processing line, on which it is processing a newly developed product, FlavAsep, an all-natural yogurt fruit base, available in ten flavors. Aseptic processing preserves the fresh flavor of the fruit but permits the product to be shipped and stored at room temperature.

In another area of its business, the industrial foods unit reported record shipments of bulk sweetened condensed milk to the candy industry and of milk powders to the bakery and ice cream industries. In 1979, the unit expects to begin market sales of whey nutrients recovered from acid whey produced in the manufacture of cottage cheese. The Division in 1978 completed and began test runs at its facility at Watertown, N.Y., that, through an electrodialysis process, converts high-acid whey -- normally a waste by-product of cottage cheese production -- into sweet whey, comparable with whey derived from the manufacturing of natural cheese and widely used in commercially baked goods and ice cream.

Based on a review of operations, it was determined that the bottled water unit did not meet the Division's growth profile as developed by management and was sold at year end.


BARLEY
NEW
ELMER'S
CYANOACRYLATE ADHESIVE
WONDER

Borden Chemical

	1978	1977
Sales (in Millions)	**$ 923.8**	$ 876.2
% of Total Sales	**24%**	25%
Operating Income (in Millions)	**$ 110.4**	$ 118.2
% of Total Income from Operations	**39%**	43%

Sales of Borden Chemical set an all-time high, rising 5.4% from a year earlier, but operating income declined 6.6%, the first year-to-year decrease since 1969. Dollar sales improved because of higher overall unit volume combined with slightly higher selling prices in some of the stronger product groups. But costs continued their inexorable rise, and even in those instances where selling prices were increased, the amounts were not always sufficient to keep pace with the rise in costs. Margins were squeezed and income declined.

In general, the specialty products performed well; the commodity chemicals, including fertilizers, did poorly. The Division, by intent, is a net buyer of almost all the basic chemicals that it produces and upgrades. The practice enables the manufacturing plants to run at their full capacity and highest efficiency. Major exceptions are methanol and urea, which the Division produces in volume beyond captive requirements. In 1978, these two chemicals, although in strong demand domestically, were under severe price pressure in the market place. The pressure was reflected in the sharp decline in overall results of the petrochemical operations, which in 1977 contributed significantly to the Division's record performance.

Fertilizer operations, as anticipated, were also well under a year earlier in operating income.

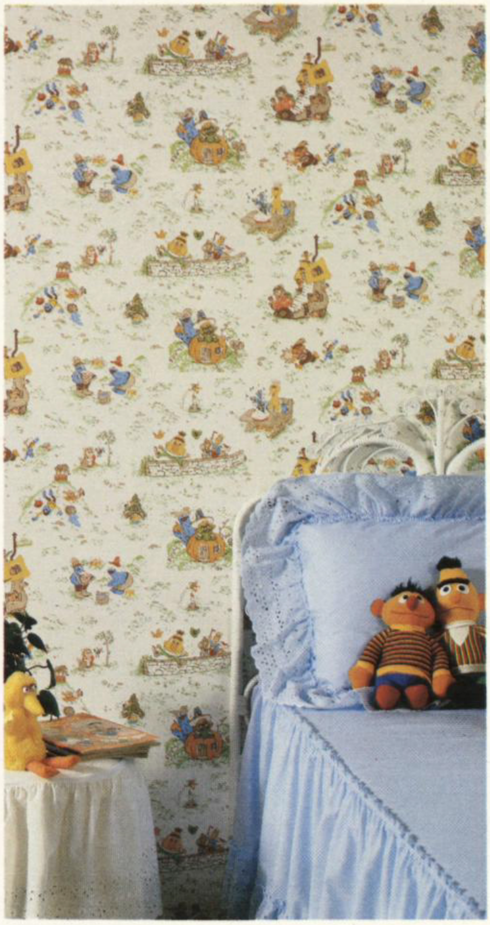
PVC BUSINESS IMPROVES

The Division's thermoplastic operations -- primarily those producing and converting PVC resins -- had an excellent year, even though sharing many of the problems that have arisen within the industry: a slowdown in market growth, excess capacity, and somewhat reduced operating efficiency. Efficiency is being affected by new and stricter federal emission standards for vinyl chloride, which became effective in late October.

The Division's Resinite PVC film operations turned in record results, aided by marketing emphasis on industrial films, including Pallet Wrap, a film introduced in 1976 for the stretch-wrapping of palletized products.

Resinite is the leading brand of transparent film for the in-store wrapping of meats and produce. In 1978, this market declined as cost-conscious consumers cut back on their unit purchases of meat and produce. The shortfall through food outlets, however, was offset by increased demand for industrial films.

To meet the increased demand, the Resinite operations had the benefit of almost 20% greater capacity, the result of an expansion that came on stream late in 1977.



Newest addition to the line of Elmer's carded adhesives is Wonder Bond, a cyanoacrylate adhesive with exceptional tensile strength: one drop holds 5,000 pounds. Its introduction was supported by one of the heaviest product promotions in the history of the Chemical Division/The Division's coated fabric operations introduced a line of prepasted wallpapers featuring characters from the popular public television program, "Sesame Street."

To complement and strengthen its position in plastic film packaging, the Division, in October, began marketing, through its Resinite department, biaxially oriented polypropylene (OPP) film, under a licensing agreement with Toyobo Co., Ltd., of Japan. At the same time, the Division licensed, on an exclusive U.S. basis, Toyobo's technology for the manufacture of OPP, and will convert an existing plant facility at North Andover, Mass., to production of the film. The new plant is scheduled to go into operation by mid 1980.

Unlike Resinite PVC film, which is made from resins manufactured by Borden Chemical, the OPP film will be made from purchased resins.

OPP film has wide and fast-growing applications in the factory packaging of food and other products. It has high tensile strength, dimensional strength, gloss, and clarity; exhibits grease resistance and barrier properties; is printable, and costs about 30% less than cellophane.

Overall, the Division's other thermoplastic operations did well, some in the face of highly adverse market conditions.

HOUSING MARKET UP

A surprisingly strong housing market benefited the sale of PVC resins to the housing industry. Where in 1977 the demand for Borden PVC was exceptionally strong in siding and pipe, in 1978 the demand shifted to resins for flooring and wire and cable, resulting in higher dollar sales and a more profitable product mix. Sales of PVC resins to the automotive industry -- in contrast to sales of finished PVC materials -- were up substantially from a year earlier.

The Division's PVC resins are produced at two plants, Leominster, Mass., and Illiopolis, Ill., which together underwent a $26.5 million retrofitting during the year to optimize manufacturing under federal Environmental Protection Administration standards that became effective Oct.21.

The coated fabrics operations, which convert and upgrade PVC resins, experienced slightly improved dollar sales, but overall volume declined because of a shift in product mix. Although most closely identified by the public with Wall-Tex brand vinyl wall coverings, the coated fabric operations are also major suppliers of vinyl materials to the industrial and automotive markets.

Wallcoverings again in 1978 were under pressure from less costly decorative materials. To offset this competitive disadvantage, and capitalize on the exceptionally strong new-housing market, a threefold marketing strategy was adopted: introduction of a "top of the line" designer collection of vinyl wallcoverings, "Diane Von Furstenberg for Wall-Tex;" emphasis on living/dining/bedroom rather than kitchen/bath patterns, in order to double the average unit sale; and introduction of a prepasted wallpaper line featuring characters from the popular public television children's program, "Sesame Street." The marketing program, keyed mainly to the important fall promotion period, spurred a strong pick-up in fourth-quarter sales.

In the automotive sector, both volume and dollar sales of vinyl materials were off substantially, as car buyers continued to show a decided preference for cloth seating and headlining. Industrial sales, in units and dollars, of calendered vinyl (primarily for lamination to metal, wood, and gypsum) increased substantially in the first half, compared with a year earlier, but eased in the second half, with results for the year nonetheless well ahead of 1977.

NEW VINYL FABRIC ADDED

The Division's other vinyl operations, which produce materials sold to manufacturers of luggage, furniture, and women's accessories, outperformed the industry by a sizeable margin, although results were only moderately ahead of a year earlier. The market for vinyl used in small items, such as shoes, has been badly hurt by imports, while the market for vinyl in upholstered furniture has been adversely affected by competition from less costly cloth materials. Borden strategy to combat the situation in the latter market has been either to position its products against cloth on the basis of serviceability (as in dinette sets) or against natural leather on the basis of cost. "Ultra Leather," a new expanded-vinyl fabric, was introduced during the year.

The Division's thermosetting-resins operations experienced a mixed year, with overall sales up moderately from 1977 but operating income down slightly.

The operations serving the West Coast plywood and particleboard industry had an exceptionally favorable year, with volume and unit prices -- and thus total dollar sales -- comfortably ahead of a year earlier. Results were buoyed by the unexpectedly high level of housing starts, which matched the 1977 figure of about two million units and was almost 18% above industry projections early in the year. Into the fourth quarter, however, builders assumed a more cautious position, which affected shipments of Borden Chemical's resin

adhesives to plywood manufacturers.

Thermosetting-resins operations serving manufacturers in the East experienced a healthy increase in volume sales, sufficient to lift dollar sales above year-earlier levels despite softer prices. Two major factors were behind the less favorable overall results: a sharp drop-off in sales of adhesives to the Southern furniture industry, and unsatisfactory cost variances as well as industry-wide price weakening in dry phenolic resins.

Start-up of a new dry phenolic resins plant at Louisville, Ky., which has a rated annual capacity of 32 million pounds, was delayed by a winter blizzard that halted construction for several weeks and disrupted production and delivery schedules through the first half. By the third quarter, however, the Division's output of dry phenolic resins, including production from a newly expanded plant at Bainbridge, N.Y., was at an all-time high, and for the year as a whole ran 22% above a year earlier.

Dry phenolic resins are to thermosetting resins what PVC is to thermoplastic resins: raw material of exceptional versatility. They are, and have been for years, used to bind sand-core molds in foundries, to bind abrasives in grinding wheels and brake linings, seal light bulbs to metal bases, and mold plastic cabinets and electrical switch boxes. Recently, more sophisticated applications are being found for the resins in fiberglass insulation (air conditioners and refrigerators), "carbonless" carbon paper, and cushioned "safety" dashboards in automobiles. Growth prospects are

Sterling brand office accessories had an excellent year, contributing materially to the record performance of the Division's consumer products group/The Division is an important supplier of vinyl materials to manufacturers of quality furniture.

among the most favorable in the chemical industry.

The Division, on Dec. 31, formally withdrew from the home insulation market, which it had been serving for three years with another of its thermosetting-resin based products, Insulspray, a foamed-in-place insulating material made from urea formaldehyde combined with a catalyst. The market for urea formaldehyde foam, which offered such high promise at the time of the Division's entry in 1976, was severely damaged during the year by extensive unfavorable publicity stemming from unsupported (and unsupportable) charges of health hazards associated with its use, as well as by the failure of several federal agencies to act on standards and guidelines for the product. The public's uncertainty led to a sharp drop-off in sales of Insulspray to the Division's licensed distributors, with the result that the product became unprofitable. When a review, toward year end, of the product's potential showed little likelihood of a turnaround in the near future, the decision was made to withdraw Insulspray from the market.

Insulspray sales at their peak in 1977 accounted for only 3% of total thermosetting-resin production, so the termination did not materially affect the Division's 1978 performance. It was the product's great potential, the need for it in energy conservation, and the unfairness of the charges leveled

A TV commercial featuring baseball star Johnny Bench and "Johnny Bench's bench" humorously pointed up the "no-run" feature of Krylon decorator spray paints. Krylon sales were well above a year earlier/Brake linings, molded pumps and distributor caps are only a few of the many and growing applications for dry phenolic resins. Borden Chemical during the year brought on stream a new dry phenolic resins plant with an annual capacity of 32 million pounds.

against urea formaldehyde foam that makes withdrawal from the business so distressing.

PEAK EFFICIENCY AT GEISMAR

The Division's petrochemical facilities, clustered at the petrochemical complex at Geismar, La., operated more efficiently than in any other year of the 18 years they have been in existence, which made their sharp drop-off from year-earlier results all the more disappointing.

Geismar produces most of the basic chemicals that are upgraded to intermediate and end products at other Borden plants around the country. Geismar is the Division's source, at least in part, of acetic acid, ammonia, methanol, urea, vinyl acetate monomer, and vinyl chloride monomer. As noted earlier, it is a net buyer of all but methanol and urea, two products that were under extreme price pressure during the year. Although its overall production costs per unit of output were the lowest ever -- and the complex is on a par with the most efficient anywhere in the industry -- selling prices were sufficiently depressed to cause a significant erosion of margins. The new vinyl chloride monomer (VCM) plant, which opened in early 1977; the ammonia plant, and the methanol plant all operated substantially above design capacity, contributing to the record cost efficiency.

The VCM plant uses ethylene, a derivative of oil refining, as feedstock; ethylene was in abundant supply owing to high oil refining levels. Efficiency of the ammonia plant benefited from a newly installed storage tank, the availability of which permitted a 300-tons-per-day increase in ammonia production. Cost efficiency of methanol production was improved with the installation of a dimethylether recovery unit, which captures 2.4 million gallons of dimethylether for use as feedstock.

Plans are under way to further improve the efficiency of the methanol operation by converting from the existing high-pressure process to a low-pressure process that will require 30% less energy for the same amount of product. The conversion is scheduled for completion by early 1981, but no interruption of supplies is expected during the changeover.

ACETIC ACID EXPANSION

Also scheduled to get under way in 1979 is an expansion of the acetic acid plant that will boost rated capacity 40% to 140 million pounds per year.

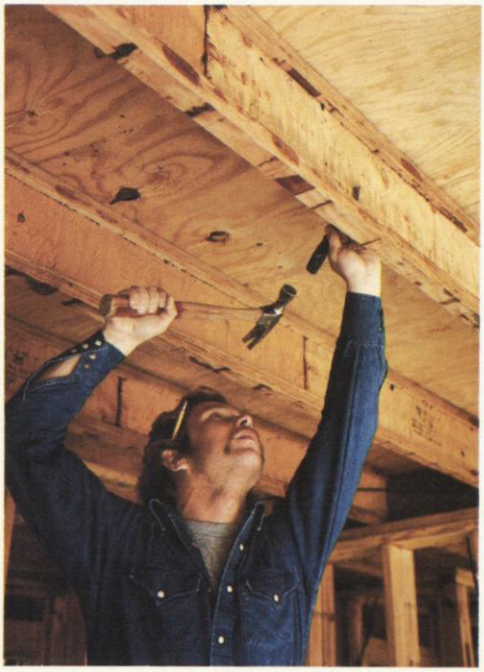
The Geismar petrochemical complex is by far the Division's, and the company's, largest user of hydrocarbons. To assure adequate supplies of feedstock far into the future, the company, in addition to energy-conserving capital projects, has undertaken an aggressive gas/oil exploration program. In 1978, its third year of operation, the results were highly favorable, in spite of a shortage of drilling-rig equipment that limited oil and gas discovery.

The company during the year increased its financial interest in a major exploration venture; it also operates a wholly-owned gas field, and participates in other programs with a variety of partners. All exploration efforts are confined to Louisiana.

Owing to the growing size and importance of the gas resources program, its supervision, as of Jan. 1, 1979, was assigned to a corporate vice president, reporting directly to the president and chief operating officer of Borden.

Borden Chemical's agricultural operations experienced mixed, but overall lower, results: fertilizer tonnage, dollar sales, and profits were off sharply from a year earlier, while the performance of the feed-phosphate and feed-supplement operations showed a healthy increase.

Several factors combined to reduce the results in fertilizer: a short spring selling season, caused by poor weather



Borden Chemical helped develop the adhesive system used by Trus Joist Corp. of Boise, Idaho, to manufacture its patented I-beams, 2" by 10" floor and roof supports made by laminating ¼" veneer strips. A 26-foot-long Trus Joist I-beam is stronger than a solid lumber beam but, at 46 pounds, weighs only half as much.

conditions; a shift by farmers to crops, such as soybeans, that require less fertilization, and severe price competition from imported anhydrous ammonia.

Throughout the industry, ammonia prices were the lowest in years. Phosphate fertilizers, on the other hand, strengthened in price and demand during the fall planting season.

The feed-supplement operations benefited from the high prices obtained by farmers for hogs, cattle, and chickens.

Problems encountered during the first quarter in the start-up of a new phosphate mine and beneficiating plant at Big Four, near Tampa, Fla., combined with the depletion of the former mine at Tenoroc, Fla., contributed to reduced cost-efficiencies in the agricultural operations during the early period of the year. The mine and plant became fully operational during the second quarter, enabling the Division to take advantage of the increased demand for phosphate-based fertilizer and inorganic phosphate used in animal feeds. The Big Four mine has an annual capacity of 1.2 million tons of phosphate rock, and will supply the Division's needs for the foreseeable future.

Borden Chemical's consumer products had another record year, with Krylon spray paints and Sterling school and office supplies contributing materially to the improvement.

Krylon benefited from a major television effort focused on the distinctive "no drip" feature of the

The Division complemented and strengthened its position in plastic film packaging with the marketing of biaxially oriented polypropylene (OPP) film. Among the new film's many applications are single-ply OPP packaging (Drake's cakes) and OPP laminated to other films (Wise snacks and Borden cheese slices)/Borden Chemical also manufactures Resinite PVC film, marketed for the in-store wrapping of meats and produce and, as Pallet Wrap, for the stretch-wrapping of palletized products.

Results for the Alex Colman line of women's sportswear and dresses were well ahead of a year earlier, counter to the experience of the industry generally.

line of decorator colors. Introduction of a line of van and truck paints also aided sales.

Sterling extended its highly successful desk accessory line with two new items. Emphasis on office accessories has enabled Sterling to show steady growth in recent years, despite a decline in its original line of business -- school supplies -- which has been affected by declining school enrollment and the financial problems of many school districts.

Declining enrollment and the financial problems of schools were reflected in reduced sales of the larger sizes of Elmer's adhesives. However, there was a strong surge in sales of carded adhesives, a separate line, directed primarily to the "do-it-yourself" householder, that has been considerably expanded in the past few years. The newest addition, introduced during the year, is Wonder Bond, a cyanoacrylate adhesive with exceptional tensile strength -- one drop holds 5,000 pounds. Its introduction was supported with one of the heaviest promotions in the history of Borden Chemical, including distribution of 50 million cents-off coupons.

MYSTIK ADDS NEW ITEMS

The Mystik Tape operations experienced strong demand for paper and plastic tapes, but reduced demand for the higher-margin cloth tapes with which the name is most closely identified. Mystik during the year introduced several new items, including polypropylene tape in a dispenser, Krystal Kleer, and "cushion-grip" tapes for wrapping the handles of tools and tennis racquets.

The Division's printing ink operations, as in 1977, benefited from heavy volume sales of pigments, but inks were adversely affected by price cutting throughout the industry and, to a lesser extent, by a shift in product mix. The shift, generally, was a follow-through to product and technical developments of recent years, with gains in sales of publication inks and some shrinkage in sales of packaging inks.

Results for the Alex Colman line of women's sportswear and dresses rebounded from the depressed levels of a year earlier; in doing so, the operation ran strongly counter to the experience of the industry. Unit sales increased from 1977, as did selling prices, the latter helping to improve margins. The fall and December-holiday promotions were especially successful, resulting in an upward trend of business toward year end. The relatively new Mr. Alex (large size) and Alco (chain store) lines recorded significant unit gains.

* * *

Borden Chemical anticipates another difficult year in 1979. While fertilizer operations are expected to improve, other major bulk chemicals are likely to be adversely affected by a drop in housing starts, which would affect PVC and adhesives business. To these expectations must be added the uncertain effect of price guidelines and the prospect of at least a slowdown -- if not a halt or a reversal -- in national economic growth. Beyond the normal precautions of tight inventory control and closely monitored receivables, the Division has embarked on a concerted program to develop and promote specialty products, which carry higher margins and are less sensitive to market fluctuations of the volatile commodities. The Division's entry into oriented polypropylene packaging film, its expanded capacity in Pallet Wrap PVC film, and its increased commitment in dry phenolic resins are indicative of its plans, as is the cutback in capital spending for commodity-producing projects. The major purpose of the methanol investment, for example, is an increase in energy efficiency.

For the Division, 1979 will be largely a year of regrouping, in preparation for a return in 1980 to the healthy growth pattern of recent years.


Merry Xmas
Lady Borden
Ice Cream
Decoration Ice Cream
DECORATION

Borden Inc. International

	1978	1977
Sales (in Millions)	**$ 749.4**	$ 594.5
% of Total Sales	**20%**	17%
Operating Income (in Millions)	**$ 68.5**	$ 61.0
% of Total Income from Operations	**25%**	22%

Borden Inc. International had another record year, as operating income rose 12.4% from a year earlier on a 26.1% gain in sales.

All areas of the Division contributed to the growth in sales and income, except for the Canadian operations, whose dairy business was adversely affected by price controls and increased competition, and export operations, which were affected, as in 1977, by lower shipments of petrochemicals and fertilizer.

The overall weakness of the U.S. dollar during most of the year had a mixed effect on income. The weakness benefited some operations whose manufacturing costs as well as selling prices are in local currencies, but worked against other operations where costs are in local currencies but sales, although outside the U.S., are in U.S. dollars.

EUROPE

European operations again had record results.

Chemical business was on an upward trend throughout the year, with particular strength evidenced in consumer, hobby, and "do-it-yourself" products and Resinite PVC film in the United Kingdom; specialized industrial tapes in France, and Resinite film in Scandinavia.

During the year the Division entered the formaldehyde-based resin and molding powder business in Spain with the acquisition of a Dow Chemical facility in Bilbao. A plant for the manufacture of Resinite film is also nearing completion at Alicante, Spain. Both of these ventures will further strengthen the Division's position as a leading supplier of thermosetting resins and flexible packaging film.

The European food operations were led by the outstanding performance of the Division's bakery in Germany. The Spanish food company also achieved new highs. A new snack manufacturing facility in Segovia, Spain, came on stream and is expected to help results substantially in 1979. In Denmark, Cocio sterilized chocolate milk had record results, but the cheese business was soft owing to a market surplus brought about by lower overall consumption. This is seen as a temporary condition, however, and 1979 should see considerable improvement. In the United Kingdom, ReaLemon sales continued to be excellent.

Overall, in Europe, new food products, not part of the Borden line as recently as 1975, are accounting for a substantial and rapidly-growing share of total sales and income.

The Division's KLIM powdered whole milk business, which is mainly European based but entirely an export operation to developing countries, was negatively affected by the weakness of the U.S. dollar. The Borden competitive position remains strong, however, and the problems encountered during the year are considered short-term.

Lady Borden "decoration" ice cream was introduced to the Japanese market for the December holiday season, with excellent results. The "cake" is made from Lady Borden vanilla ice cream, whipped cream, strawberry sauce, and sliced almonds. The polystyrene carton has a tray for the cakes and a tray for dry ice/Borden Cocio, Denmark's largest selling brand of bottled, all-natural chocolate milk, set a new high in sales.

CANADA

Expansion took place in all divisions during the year. The continuing pressure of the devalued Canadian dollar, high unemployment, and political unrest, however, disrupted normal marketing activities.

The chemical operations set new highs in sales and operating income. They are the leading supplier of thermosetting resins to the Canadian plywood, particle board, and insulation industries, and thus benefited from a strong international demand for Canadian wood products. The successful marketing of new and improved wet-strength polyamid resins has made Borden a major supplier to the country's important paper industry.

A new formaldehyde plant at Vancouver, British Columbia, is operating at above-design capacity, and construction of a fourth Canadian formaldehyde plant will get under way in 1979 at Laval, Quebec, with completion scheduled for mid 1980.

Resinite PVC film capacity was increased to support the product's continuing growth in in-store food packaging and in pallet wrapping. In addition, the chemical group has diversified into the manufacture and marketing of new single-ply and coextruded films for specialized food packaging applications.

Consumer chemical sales, in spite of the economy, showed good growth during the year.

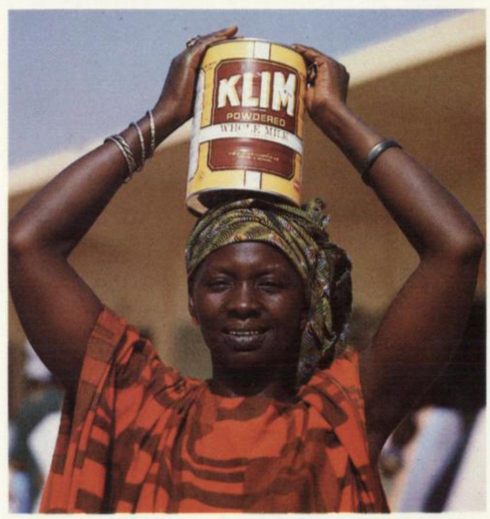
The Canadian dairy operation experienced lower results as higher costs, increased competition, and price controls combined to put a severe squeeze on margins. The operation, nonetheless, was successful in capitalizing on growth opportunities in the specialty products and premium ice cream markets. Borden Parlour Ice Cream, introduced early in the year, has quickly become a significant volume contributor. In yogurt, new retail chain distribution, together with the introduction of a new pedestal yogurt cup decorated with superior graphics, has resulted in dramatic volume increases for the product.

Food operations continued rapid growth in several major product categories. Sales of Eagle Brand sweetened condensed milk, ReaLemon reconstituted lemon juice and ReaLemon and Wyler's powdered drink mixes established new volume records. All major items were supported with strong advertising and promotional activity. ReaLemon reconstituted lemon juice and lemonade drink mix benefited from television advertising support and strong on-label consumer offers. Wyler's continued to gain market share, despite heavy competition, through extensive television support and heavy promotional activity. A new high-speed bulk filling and packing line for drink mixes was installed at Ingersoll, Ontario. This allows previously co-packed products to be packed by Borden.

LATIN AMERICA

Borden Latin American and Caribbean operations continued their strong growth pattern and, in spite of continued high inflation and resulting price controls in some countries, all major operations turned in improved sales figures and operating income during 1978. Two major acquisitions contributed to the improvement in operating income over a year earlier.

Both acquisitions were in Puerto Rico. Industrias La Famosa is Puerto Rico's largest food-can manufacturer and also has proprietary lines of canned food products. Well-known on the U.S. mainland is its Coco Lopez brand cream of coconut, the original product of its type widely used to make the popular Piña Colada drink



Model airplane kits by Humbrol contributed to the strong consumer business and record overall results achieved by the Borden chemical affiliate in England/KLIM brand powdered whole milk is the International Division's most widely distributed product, marketed in almost 130 countries/The Division's Canadian chemical operations marketed new and improved polyamid resins, which give "wet strength" to such products as paper towels. Borden is a major supplier of resins to the important Canadian paper industry/The owner-operator of this newly decorated jinrikisha in Hong Kong smilingly endorses the merits of Krylon spray paints and varnish. Exports from the U.S. of Borden-branded consumer products registered strong gains in 1978.

but having many cooking applications as well. Caribbean Snacks, the other acquisition, is a well-established manufacturer of potato chips and other snacks.

The food distribution company in Puerto Rico expanded its operations and added new lines of frozen food as well as increased pre-packed meat products of its own manufacture.

The Brazilian pasta company continued to record high volume sales. New products, such as refrigerated fresh dough pasta, pizzas, and meat pies, were introduced.

With the resolution of the Panama Canal situation, the Division is especially optimistic about the future of its Panama operations. New powdered milk facilities have been installed at the Borden plant in the province of Chiriqui, and local production of Borden brand processed cheese has begun.

The Latin American chemical operations maintained an aggressive stance in the face of increased competition. Higher costs of hydrocarbon raw materials and energy have strained profit margins, but increased efficiencies and higher production have maintained overall profitability.

In Brazil, a new phenolic resins plant was commissioned, and two new Resinite extruders were added to service the increasing demand for PVC packaging film. Ground was broken for a new resins and formaldehyde plant in Manaus, on the Amazon River.

The Mexican chemical company rebounded from 1977 and turned in an excellent performance. New formaldehyde capacity is being planned.

ASIA

Chemical and food operations achieved record results in both sales and income in spite of economic setbacks in most markets where Borden operates.

The Malaysian chemical operation increased its market share both in its home market and in sales to neighboring countries, and construction was started on a new spray dryer for the resins plant at Penang.

Borden Australia, a major factor in the country's chemical industry, continued to grow despite a poor economic climate. At year end, a third manufacturing facility -- a formaldehyde and resin complex -- went on stream, at Brisbane.

Record results were again achieved by the Philippine chemical company. From an already reduced energy base this unit found additional methods of energy conservation while at the same time increasing productivity.

On the food side, Lady Borden ice cream continued to dominate the market for premium ice cream in Japan, registering yet another year of uninterrupted sales gains. The joint venture, Meiji-Borden, accelerated the pace of new product introductions. Natural cheeses and Cocomate, a malted-milk drink, from Borden Denmark, and Cremora non-dairy coffee lightener from the U.S., were successfully launched. Flavor extensions were added to the Cheez Kisses line and additional capacity for this snack item is under review.

CAN MACHINERY

The Can Machinery Group was expanded with the acquisition in February of Ragsdale Bros., Inc., of Denver, Col., a leading producer of equipment for the manufacture of seamless two-piece cans. Denver was then established as the headquarters for the group, which includes production facilities at Randolph and Middleport, N.Y.

Business was strong for the Can Machinery Group, with substantial growth in international sales during the year.

An air tester was developed that checks gasoline tanks of automobiles and trucks for leaks at a speed

Corporate Activities

This Tropical Fruit Pie features Coco Lopez brand cream of coconut, the original product of its type and made by Industrias La Famosa, a leading Puerto Rican food and food-can manufacturer acquired during the year.

ten times that which was previously possible. A device using X-ray technology was developed to check packed food cans for foreign objects and fill-accuracy. It operates at the rate of 600 cans per minute.

In 1979, with customers demanding more efficiency and higher speeds in can-making equipment, the group will introduce a new high-speed body maker and also offer "speed-up" packages for existing machines.

EXPORT

Results of the export operations declined from a year earlier owing to lessened demand and lower prices for petrochemicals and fertilizer. On the other hand, Borden-branded products, both foods and chemicals, registered strong gains in overseas markets. The gains came from higher volume sales of products already established abroad as well as from the introduction of new products. Borden products can be found in almost 130 countries around the world.

CHANGES IN OFFICERS AND DIRECTORS

In September, the company announced that Augustine R. Marusi, chairman and chief executive officer, on Dec. 1, 1979, will turn over the function of chief executive officer to Eugene J. Sullivan, currently president and chief operating officer. The board of directors, in approving the changeover and its effective date, acted upon Mr. Marusi's recommendation that 1979 be a year of transition of the chief executive officer's duties.

Marvin J. Herb was appointed president of the Borden Dairy and Services Division and elected a corporate vice president, effective Jan. 1. He succeeded Lewis E. Torrance, who continued as a corporate vice president until his retirement June 1.

John B. Carnahan, vice president-distribution, was named vice president-purchasing and distribution, effective Jan. 1. In assuming responsibility for corporate purchasing, he succeeded John B. Nimons, who continued as a corporate vice president until his retirement July 1.

Robert W. Gutheil, formerly a group vice president of the Borden Chemical Division, was named president of the Division and elected a corporate vice president, effective Jan. 1, 1979. He succeeded Max A. Minnig, who was named president of Borden Gas Resources as of that date, continuing as a corporate vice president.

After many years of distinguished service, Lawrence A. Wien, senior member of the law firm of Wien, Lane & Malkin and a Borden director since 1965, retired from the board on April 19, the date of the annual meeting, in accordance with a company policy that nominees be under 72 years of age at the time of election.

SOCIAL RESPONSIBILITY

The company undertook to further fulfill its responsibilities to racial minorities, women and the handicapped in its employment, purchasing and philanthropic activities.

Both the number and percentage of minority employees again increased from a year earlier, based on an analysis of employment data assembled during 1978. The percentages of women in higher-level managerial, professional, technical and sales categories showed nearly a 30% improvement over the previous year, while the percentage of minorities in top-level jobs posted almost a 10% gain.

In the Minority Purchasing Program, the company increased expenditures for goods and services almost 10% from a year earlier, to $21.7 million -- more than double the value of such purchases in 1976.

The company continues to broaden the scope of purchases from minority firms. In addition to purchases in service fields where minority involvement has been prevalent in the past, the company has purchased goods and services from minorities in such non-traditional fields as chemical supplies, specialized stainless steel parts for food processing equipment, and silk-screen printing.

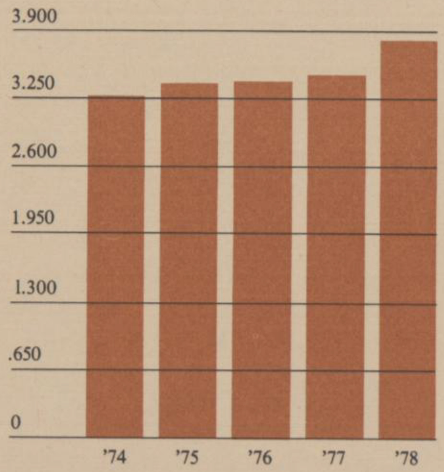
The Borden Foundation, Inc., which is the primary conduit for charitable contributions for Borden, Inc., continued to provide grants to United Way campaigns, health care organizations, programs and hospitals in locations where Borden maintains facilities, and to national health organizations as well. Other priorities for giving include youth, community development, cultural arts and education organizations.

The Independent College Funds of America Inc. and the United Negro College Fund Inc. continued to be the principal recipients of grants to support higher education. These two "umbrella" organizations represent more than 600 colleges and universities throughout the United States.

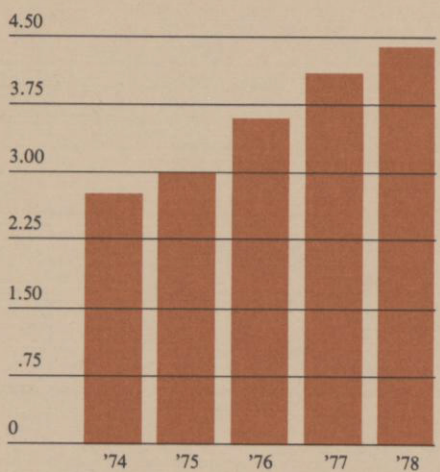
Assistance was provided to minority students through grants to the National Medical Fellowships Inc. (for American Indians), A Better Chance (ABC) and the Universidad Boricua.

1978 Financial Review

Sales
in billions of dollars

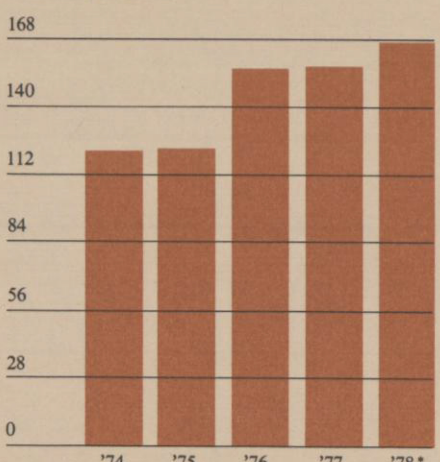


Income Per Share*
in dollars



* Primary

Capital Expenditures
in millions of dollars



* See note 1 to financial statements concerning capital leases.

Financial Review and Management Analysis

Sales and Earnings

Net income increased 7.0% to $135,827,000 from the previous high of $126,908,000 in 1977. Primary earnings per share increased 7.6% to $4.38 from the previous high of $4.07. Fully diluted earnings per share, reflecting two outstanding convertible Eurodollar debenture issues, were $4.19 compared with $3.89 in 1977. Net income in 1977 was 12.7% over the record level of 1976 and primary earnings per share were 12.1% over 1976.

Sales increased to $3,802,559,000 in 1978 representing an increase of 9.2% over the 1977 record of $3,481,278,000. Sales in 1976 were $3,381,075,000.

Interest expense increased in 1978 as compared to 1977 as a result of additional short- and long-term debt outstanding during the year, and was adversely affected by the general rise in interest rates.

Pretax income amounted to $220,127,000 almost level with the $220,308,000 in 1977. Federal, foreign and state and local income taxes totaled $84,300,000 compared with $93,400,000 in 1977. The lower tax rate reflects primarily the cumulative effect of higher capital expenditures on the investment tax credit which amounted to $15,800,000 in 1978 against $10,800,000 in 1977. Pretax income increased 8.1% in 1977 as compared to 1976. Income taxes in 1976 were $91,200,000 and the investment tax credit aggregated $8,150,000. Net income was reduced by net foreign exchange losses of $7,700,000 in 1978 and $4,200,000 in 1977.

Net Working Capital

The company maintains working capital which is deemed adequate to assure its liquidity. Efforts are directed toward maximizing internal cash generations and maintaining the lowest reasonable debt levels. There are programs for close monitoring of the receivables position, maintenance of stringent inventory controls, and the application of cash management techniques. Such programs have enabled the company to minimize its short-term borrowings and to maintain a strong liquidity position.

Capital Expenditures

Capital expenditures for new and improved facilities amounted to $167,003,000 as compared to $156,876,000 in 1977. Depreciation, depletion and amortization aggregated $87,486,000 against $78,099,000 in the previous year.

Dividends

The Company completed 80 years of uninterrupted dividends, dating back to its incorporation in 1899, with the payment in December of the 275th consecutive dividend on Common Stock.

Cash dividends of $52,068,000 were paid on the Company's capital stock in 1978, compared with $47,165,000 in

1977. Dividends on Common Stock were $51,978,000 at $1.68 per share and on Preferred Stock—Series B, $90,000 at $1.32 per share. The Preferred Stock—Series B is convertible at any time into Common Stock at the rate of 1.1 shares of Common for each share of Preferred.

General Business Activities and Services

Competition is intense for each of the operating divisions which must compete with both national and local manufacturers both domestically and internationally. Since its products are sold to millions of consumers from all walks of life, Borden's advertising and promotional activities are extensive and embrace all avenues of business communications.

Borden purchases raw materials and supplies from a broad range of sources. Natural gas, fuel oil and electricity are the Company's principal energy sources. To assure adequate supplies of natural gas, a major feedstock for the Company's Chemical Division, a gas resource program (discussed elsewhere in this annual report), has been established to undertake exploration. In addition, the Company has an Energy Task Force which establishes and enforces Company energy conservation policies.

Borden has been able to obtain fuel to meet its power and heating requirements. It is the opinion of Borden's management, based on information currently available, that Borden will be able to meet its energy needs in 1979. Borden was able to obtain all necessary petrochemical production materials in 1978, and it does not anticipate any shortages which would materially affect operations in 1979.

Borden is continually developing and marketing new food and chemical products. Research and development activities are carried on at the divisional level and are integrated with quality controls for existing product lines. Research and development expenditures were approximately $16,400,000 and $16,300,000 in 1978 and 1977, respectively.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to the production, processing, distribution and labeling of its many products. In this connection Borden incurred approximately $20,700,000 worth of capital expenditures during 1978. It is estimated that the Company will spend approximately $11,900,000 for environmental control facilities during 1979.

Approximately one-half of Borden's domestic hourly-wage employees are covered by collective bargaining agreements, which are generally effective for periods of from one to three years. During 1978, the Company employed approximately 39,600 persons, about 29,000 of whom are located in the United States.

Trends by Business Area

Borden is primarily engaged in the purchase, manufacture, processing and distribution of a broad range of food and chemical products, both domestically and in foreign countries. Borden operates in two major industry segments: foods and chemical. Internally, Borden is organized into four operating divisions: Borden Foods, Borden Dairy and Services, Borden Chemical and Borden International. The foods segment encompasses the Foods Division, the Dairy and Services Division and the International Division's food products processed in domestic plants but exported outside the United States and the food and dairy products processed in overseas plants. Included in the chemical segment are the Chemical Division and chemical related products of the International Division produced both domestically and overseas. A breakdown of the Company's sales, operating profit and other information between the foods and chemical industry segments is presented on pages 32 and 33. A five-year summary of sales and operating income by the four operating divisions is presented on page 31. An analysis of results achieved in both industry segments, in terms of the divisions which achieved them, for the three most recent years follows.

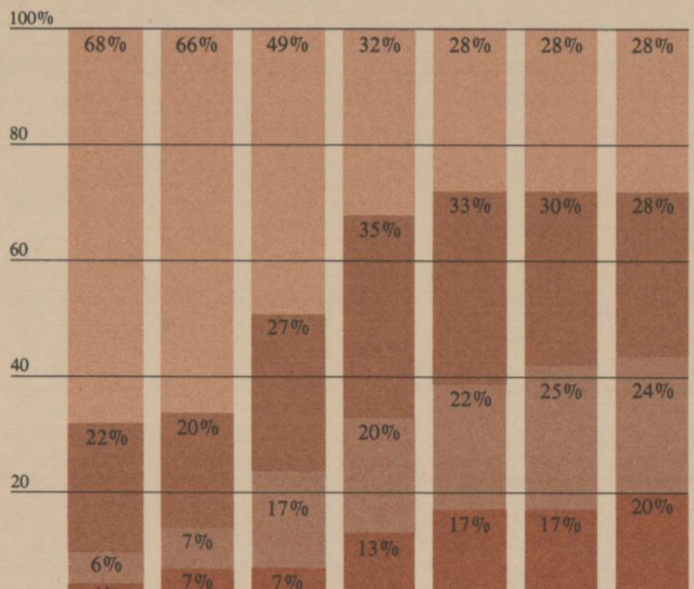
The Foods Division's sales improved 3.9% in 1978 as compared to 1977 and divisional operating income increased 6.9%. Operating income as a percent of sales was 5.3% in 1978 compared with 5.1% in 1977. Sales volume rose in major product lines, primarily cheese, confectionery, snacks and certain grocery products, enabling operating income to improve with the aid of increased prices and improved cost efficiencies. Dollar sales increased in most product categories but gains were somewhat offset by lower dollar volume in soft drink mixes resulting from continued intense competition and by the disposition of the Division's marginally profitable canning operations whose sales were included for five months of 1977. The improvement in operating income, led by the cheese, confectionery, grocery and snack products groups, reflected the return in 1978 to more normal market conditions in the cheese industry from the 1977 glut of late season cheese production, and the impact of price increases in combination with higher volume. Countering the overall improvement in operating income were severe first quarter weather conditions, several strikes and higher raw material costs. Sugar operations, reflecting the leveling off of sugar prices below the previous year's exceptional level, remained a major contributor to the Division's operating income despite posting volume declines. Sales in 1977, although declining from 1976 levels, reflected about

Five Year Comparison of Division
Sales and Operating Income (Dollars In Thousands)*

	1978		1977		1976	1975	1974
Division Sales							
Foods	$1,067,836	28%	$1,027,823	30%	$1,030,924	$1,096,301	$1,109,707
Dairy and Services	1,061,564	28	982,781	28	970,657	946,748	868,338
Chemical	923,808	24	876,189	25	833,563	730,163	701,476
International (including exports)	749,351	20	594,485	17	545,931	594,031	584,981
Total	$3,802,559	100%	$3,481,278	100%	$3,381,075	$3,367,243	$3,264,502
Division Operating Income							
Foods	$ 56,212	20%	$ 52,578	19%	$ 55,404	$ 31,717	$ 58,506
Dairy and Services	45,774	16	44,382	16	43,965	36,199	33,953
Chemical	110,372	39	118,222	43	108,086	99,067	80,266
International (including exports)	68,528	25	60,990	22	53,057	51,307	39,903
Total	280,886	100%	276,172	100%	260,512	218,290	212,628
Other income and expenses not allocable to divisions and federal income taxes	(145,059)		(149,264)		(147,945)	(125,401)	(129,119)
NET INCOME	$ 135,827		$ 126,908		$ 112,567	$ 92,889	$ 83,509

*Restated as explained in Note 3.

Per Cent of Total Sales



level volume. Dollar sales declined primarily due to the disposition of the Comstock/Greenwood operations in mid-1977 and lower volume in soft drink mixes. In 1977, the effect on operating income of an industry wide abundance of cheese, severe competitive market conditions in soft drink mixes and a sharp run-up in coffee and cocoa prices combined to overshadow the favorable results experienced in the Division's sugar and other operations.

The Dairy and Services Division's sales in 1978 increased 8.0% over 1977 and operating income increased 3.1%. The gain in sales reflected generally higher selling prices on moderately higher volume in fluid milk, fruit beverages, cream and certain of the Division's specialty operations, such as milk-based products for the industrial trade. Although ice cream volume declined slightly, its contribution to Division operating income remained about level. The positive effect on operating income of the combination of increased prices and volume of basic milk products and milk based products for the industrial trade combined to offset the negative impact of the steadily rising costs of raw milk supplies and the erosion of margins in highly competitive markets, especially the frozen dessert market. The bottled water unit was determined not to meet the Division's growth profile and was sold at year-end. In comparing 1977 with 1976, the Division experienced a moderate increase in dollar sales on an overall

lower unit volume. Operating income in 1977 as compared to 1976 reflected lower volumes of basic whole milk and ice cream which were more than offset by increases achieved in the Division's specialty operations.

The Chemical Division's 1978 sales increased 5.4% over 1977, while operating income for the same period decreased 6.6%. The sales increase is due to generally higher unit volume throughout the Division and some price increases. The sales improvement over 1977 did not result in increased profit in 1978 since selling prices could not keep pace with cost increases. Sales and operating income increases were achieved by the Division's Resinite PVC film operation and by the PVC resin operation. The major reasons for the strong performances were increased volume due to strong demand for Resinite Pallet Wrap and a strong housing market. The Division's specialty operations, particularly Krylon spray paints, Alex Colman women's sportswear and dresses and Sterling Plastics showed increased volumes and operating income primarily due to favorable consumer reactions to new products. Thermosetting resin operations showed increased sales and unit volumes in 1978 over 1977, primarily due to strong demands in the housing industry and for dry phenolic resins, however, operating profit declined slightly due to decreased selling prices and start-up expenses for a new dry phenolic resin plant. The Division withdrew from the home insulation market on December 31, 1978. The withdrawal did not have a material effect on the Division's 1978 operations. The Division's Petrochemical group reported decreased operating profit on slightly increased sales. The primary reason for the reduced profits in 1978 was depressed selling prices for methanol and urea, two of its principal products. The Agricultural operation showed a decline in profit from 1977 on slightly increased sales. The decrease in profit was primarily attributable to reduced demand for fertilizer, a short spring selling season caused by poor weather conditions, severe price competition which caused lower selling prices for ammonia and the start-up costs for a new phosphate mine. In comparing 1977 to 1976 sales and operating income, increases were achieved through substantially higher volumes which more than offset lower prices and higher costs in some major product groups, and the benefit of new facilities that came on stream during 1977.

The International Division's sales increased 26.1% in 1978 as compared with 1977 and operating income increased 12.4%. Both the foods and chemical segments of this Division contributed to the increase in sales and operating income. In the foods segment, significant increases in sales and operating income were achieved by the German bakery operations and the Brazilian pasta company. Food segment sales and operating income were also favorably affected by several acquisitions including two companies in Puerto Rico: a manufacturer of food-cans with proprietary lines of canned food and a snack food manufacturer. Food segment operations were adversely affected by European cheese and milk powder operations and by Canadian dairy operations due primarily to a European market surplus of cheese and the weakness of the U.S. dollar in which the world market price of whole milk powder is denominated. In the chemical segment strong increases in sales and operating income in the European chemical operations and the Latin American chemical operations more than offset the reduction in exports of chemicals and fertilizers. The reduction in chemical and fertilizer exports is attributable to lessened demand and lower prices. In comparing 1977 with 1976 the Division's sales increased 8.9% and operating income increased 15.0%. Both the foods and chemical segments of this Division contributed to the increase in sales and operating income. In the foods segment, significant increases in sales and operating income were achieved by the European whole milk powder operations and bakery operations, and by the Brazilian pasta operations. In the chemical segment, sales and operating income increases of the European and Latin American operations more than offset the declines in petrochemical and fertilizer exports. Exports were adversely affected by lower prices and increased domestic demand.

Operations by Industry Segment

Borden, Inc., as discussed on the previous pages, operates in two major industry segments: foods and chemical. Corporate departments provide certain centralized services for the corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its Executive Offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company considers that its operating properties are generally well maintained, in satisfactory condition and effectively utilized.

The foods segment encompasses the following: The Foods Division, including in its product lines—cheese, sugar, nondairy creamer, reconstituted lemon and lime juice, dehydrated potatoes, instant coffee, sweetened condensed milk, snack foods and cakes, confections, powdered soft drinks, jams and jellies, tomato juice and sea food; the Dairy and Services Division, which markets a full line of dairy and specialty products including homogenized milk, buttermilk, chocolate drink, ice creams and milks, sherbets, yogurt, cottage cheese, frozen novelties, dips, egg nog, sour cream, low-fat dairy products, milk-based products for the industrial trade, fruit drinks and bottled soft drinks; and the International Division's food products processed in domestic plants but exported outside the United States, and food and dairy products processed in overseas plants. As of December 31, 1978 the

Foods Division operated 31 manufacturing and processing facilities, the most significant being the Wisconsin cheese facilities, the Pennsylvania potato chip and snack food plant, the Louisiana sugar operations, the Illinois powdered soft drink operations and the bakery operations in New Jersey; the Dairy and Services Division operated 64 manufacturing and processing facilities, all of which are of approximately the same size and are located within their marketing regions served; and the International Division operated through consolidated and equity basis companies, 48 food and dairy manufacturing and processing facilities located principally in Brazil, Western Europe and Puerto Rico.

Included within the chemical segment are the Chemical Division and chemical related products of the International Division produced both domestically and overseas. This segment is a major producer of agricultural fertilizers and chemicals, animal feed supplements and basic petrochemicals and thermoplastics including polyvinyl acetate, PVC latex and resins, formaldehyde, methanol, ammonia, urea and acetic acid. It also produces synthetic adhesives for plywood products, transparent wrapping film, printing inks, vinyl wall coverings, glue, tape, spray paint, plastic office and housewares and clothing. As of December 31, 1978, the Chemical Division operated 71 manufacturing and processing facilities, the most significant being the Division's petrochemical complex in Louisiana, the agricultural operations in Virginia and Florida, and the thermoplastics and Resinite operations in Massachusetts and in Illinois; and the International Division operated through consolidated and equity basis companies, 49 chemical manufacturing and processing facilities located principally in Brazil and Western Europe.

Domestic products for the foods segment are marketed directly, or through food brokers and distributors, to wholesalers, retail stores, food processors, institutions and governmental agencies. The chemical segment products are sold throughout the United States to industrial users and, in the case of consumer products, to distributors, wholesalers, jobbers and dealers. To the extent practicable, international distribution techniques parallel those used in the United States. However, raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country for both industry segments.

Segment operating profit as shown in the column to the right is total revenue less operating expenses. In computing segment operating profit none of the following items has been deducted from revenues: general corporate expenses, interest expense and federal, state and local income taxes. Division operating income appearing on page 31 differs from segment operating profit due primarily to the responsibility which the divisions assume for state and local income taxes. Sales between industry segments were not material and are not separately set forth. Minority interest in earnings of certain subsidiaries and the Company's equity in earnings of unconsolidated 20% to 50% owned companies were immaterial and have been included in segment operating profit.

Identifiable assets by segment are those assets that are used in the segments' operations. Corporate assets are principally cash and cash items.

Listed below is information about the Company's operations by industry segment (dollars in thousands):

	1978	1977*	1976*
Sales to Unaffiliated Customers:			
Foods	$2,548,936	$2,325,541	$2,284,272
Chemical	1,253,623	1,155,737	1,096,803
	$3,802,559	$3,481,278	$3,381,075
Segment Operating Profit:			
Foods	$ 141,740	$ 135,437	$ 131,358
Chemical	151,835	153,581	140,328
	293,575	289,018	271,686
General Corporate Expenses	(25,983)	(30,599)	(32,913)
Interest Expense	(47,465)	(38,111)	(35,006)
Earnings Before Income Taxes	$ 220,127	$ 220,308	$ 203,767
Identifiable Assets at Year End:			
Foods	$1,134,028	$1,009,642	$ 943,807
Chemical	966,045	849,778	755,378
	2,100,073	1,859,420	1,699,185
Corporate Assets	65,665	130,239	200,291
	$2,165,738	$1,989,659	$1,899,476
Depreciation Expense:			
Foods	$ 42,201	$ 38,311	$ 36,775
Chemical	43,089	37,326	32,769
Capital Expenditures:			
Foods	$ 75,563	$ 66,545	$ 71,597
Chemical	88,637	89,616	81,525
Foreign Operations (excluding exports):			
Sales to Unaffiliated Customers	$ 677,017	$ 528,912	$ 478,637
Foreign Operating Profit	61,318	49,468	37,465
Identifiable Assets at Year End	520,834	394,478	347,242

*Restated as explained in Note 3 and reclassified to conform with account classification adopted in 1978.

Five-Year Financial Summary

BORDEN, INC.

(All dollar and share figures in thousands—except market price and per share statistics)

Summary of Earnings	1978	1977*	1976*	1975*	1974*
Net sales	$3,802,559	$3,481,278	$3,381,075	$3,367,243	$3,264,502
Cost of goods sold	3,086,397	2,810,970	2,731,741	2,788,457	2,721,616
Interest expense	47,465	38,111	35,006	31,625	31,041
Income taxes	84,300	93,400	91,200	77,700	74,800
Net income	135,827	126,908	112,567	92,889	83,509
Net income per common share and equivalents:					
Primary	$4.38	$4.07	$3.63	$3.01	$2.71
Fully diluted	4.19	3.89	3.47	2.88	2.60
Dividends:					
Common share	$1.68	$1.52	$1.35	$1.30	$1.25
Preferred series A share				.65	.625
Preferred series B share	1.32	1.32	1.32	1.32	1.32
Average number of common shares and equivalents assumed outstanding during the year for calculation of:					
Primary earnings per share	31,018	31,190	30,998	30,886	30,827
Fully diluted earnings per share	32,873	33,127	32,991	32,882	32,823
Percent of net income to sales	3.6%	3.6%	3.3%	2.8%	2.6%
Financial Statistics					
Capital expenditures	$ 167,003	$ 156,876	$ 156,148	$ 123,603	$ 122,612
Inventories	507,461	464,117	434,184	407,065	489,403
Property, plant and equipment, net	882,234	784,769	710,318	645,026	626,077
Depreciation, depletion and amortization	87,486	78,099	72,033	65,618	62,705
Current assets	1,066,489	1,006,780	998,449	865,792	898,116
Current liabilities	539,315	481,579	477,286	399,674	449,727
Working capital	527,174	525,201	521,163	466,118	448,389
Current ratio	2.0:1	2.1:1	2.1:1	2.2:1	2.0:1
Long-term debt	439,543	395,412	404,636	387,942	392,851
Debt-to-equity percent	41%	39%	43%	45%	49%
Shareholders' equity	1,072,194	1,022,154	935,338	860,927	807,793
Liquidating value of preferred stock	(1,695)	(2,079)	(4,716)	(7,173)	(10,817)
Common shareholders' equity	1,070,499	1,020,075	930,622	853,754	796,976
Equity per common share at year end	$35.81	$32.79	$30.25	$27.97	$26.27
Shareholders' Data					
Outstanding shares at year end:					
Common	29,895	31,105	30,760	30,526	30,342
Preferred series A					158
Preferred series B	59	72	163	248	265
Market price of common stock:					
At year end	$ 25½	$ 30⅝	$ 34	$ 26⅝	$ 20¼
Range during year	25¼-31⅜	29⅛-36⅜	26-34	20½-28⅝	15¼-25¼
Number of common shareholders	62,743	63,584	65,359	67,167	67,243
Employees' Data					
Payroll	$ 518,000	$ 472,000	$ 459,500	$ 436,900	$ 403,800
Average number of employees	39,600†	38,100	40,400	42,100	46,700

**Restated as explained in Note 3 and reclassified to conform with account classifications adopted in 1978.*
†Increase reflects International Division acquisitions.

Consolidated Statements of Income

BORDEN, INC.

		Year Ended December 31 1978	Year Ended December 31 1977*
Revenue	Net sales	$3,802,559,111	$3,481,278,395
Costs and Expenses	Cost of goods sold	3,086,397,314	2,810,969,879
	Marketing, general and administrative expenses	454,169,560	424,490,717
	Equity in affiliates, interest income, royalties, net	(5,600,128)	(12,601,582)
	Interest expense	47,464,992	38,111,041
	Income taxes	84,300,000	93,400,000
		3,666,731,738	3,354,370,055
Earnings	Net income	$ 135,827,373	$ 126,908,340
Share Data	Net income per share:		
	Primary	$ 4.38	$ 4.07
	Fully diluted	4.19	3.89
	Cash dividends per common share	1.68	1.52
	Average number of common shares and equivalents assumed outstanding during the year	31,018,058	31,190,088

**Restated as explained in Note 3 and reclassified to conform with account classifications adopted in 1978.*

See accompanying Notes To Consolidated Financial Statements

Consolidated Balance Sheets
BORDEN, INC.

ASSETS		December 31 1978	1977*
Current Assets	Cash (including time and certificates of deposit of $24,856,000 and $73,321,000, respectively)	$ 81,253,594	$ 135,242,874
	Accounts receivable (less allowance for doubtful accounts—$10,183,000 and $10,532,000, respectively)	437,743,162	359,605,081
	Inventories:		
	Finished and in process goods	348,567,746	308,329,067
	Raw materials and supplies	158,893,560	155,788,292
	Other current assets	40,030,971	47,814,577
		1,066,489,033	1,006,779,891
Investments and Other Assets	Investments in and advances to affiliated companies (at cost plus equity in undistributed income)	35,344,262	33,655,917
	Miscellaneous investments and receivables (at cost or less)	10,917,171	14,865,024
	Other assets	13,401,862	10,835,268
		59,663,295	59,356,209
Property and Equipment	Land	38,773,952	37,656,218
	Buildings	327,280,622	287,829,934
	Machinery and equipment	1,154,207,688	1,034,750,011
		1,520,262,262	1,360,236,163
	Less accumulated depreciation	(638,028,739)	(575,466,972)
		882,233,523	784,769,191
Intangibles	Intangibles resulting from business acquisitions	157,352,123	138,753,951
		$2,165,737,974	$1,989,659,242

**Restated as explained in Note 3 and reclassified to conform with account classifications adopted in 1978.*

See accompanying Notes To Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

		December 31 1978	1977*
Current Liabilities	Debt payable within one year	$ 83,404,225	$ 70,839,068
	Accounts and drafts payable	313,235,726	260,880,927
	Income taxes	27,185,443	41,805,316
	Other current liabilities	115,489,466	108,053,558
		539,314,860	481,578,869
Other	Long-term debt	439,543,034	395,411,839
	Deferred income taxes	101,655,322	82,155,322
	Other long-term liabilities	6,053,478	6,498,284
	Minority interests in consolidated subsidiaries	6,977,154	1,861,034
		554,228,988	485,926,479
Shareholders' Equity	Capital Stock:		
	Preferred stock—no par value		
	Authorized 10,000,000 shares		
	Issued series B convertible—58,678 shares and 71,979 shares, respectively (involuntary liquidating value of $1,694,621 or $28.88 per share at December 31, 1978)	242,047	296,913
	Common stock—$3.75 par value		
	Authorized 60,000,000 shares		
	Issued 31,107,339 shares and 31,105,176 shares, respectively	116,652,521	116,644,410
	Paid-in capital	192,327,013	193,108,206
	Retained earnings	795,863,981	712,104,365
		1,105,085,562	1,022,153,894
	Less common stock in treasury (at cost)—1,211,857 shares	(32,891,436)	—
		1,072,194,126	1,022,153,894
		$2,165,737,974	$1,989,659,242

Consolidated Statements of Changes in Financial Position

BORDEN, INC.

		Year Ended December 31 1978	1977*
Financial Resources Provided	Operations:		
	Net income	$135,827,373	$126,908,340
	Depreciation, depletion and amortization	87,485,891	78,098,616
	Deferred income taxes	19,500,000	9,800,000
	Amortization of intangible assets and other non-working capital items, net	5,367,826	5,502,205
	Total provided from operations	248,181,090	220,309,161
	Long-term debt financing (In 1978, $112,415,144 net of $50,208,189 long-term lease obligations refinanced)	62,206,955	34,317,815
	Property disposals	13,378,244	7,500,572
	(Increase) decrease in long-term investments	602,723	(5,517,327)
		324,369,012	256,610,221
Financial Resources Applied	Capital expenditures	167,002,838	156,876,224
	Cash dividends	52,067,757	47,164,632
	Purchases of businesses, net of working capital acquired	41,916,831	4,431,083
	Purchases of treasury stock, net of shares reissued	32,891,436	—
	Reduction in long-term debt	25,472,615	48,023,546
	Other changes in non-current assets and liabilities, net	3,044,384	(3,923,649)
		322,395,861	252,571,836
	Increase in Working Capital	$ 1,973,151	$ 4,038,385

Working Capital	Details of increase (decrease) in working capital:		
	Cash (including time and certificates of deposit)	$ (53,989,280)	$ (72,924,482)
	Accounts receivable	78,138,081	37,933,537
	Inventories	43,343,947	29,933,341
	Other current assets	(7,783,606)	13,388,507
	Debt payable within one year	(12,565,157)	(12,370,901)
	Accounts and drafts payable	(52,354,799)	(12,001,111)
	Income taxes	14,619,873	8,156,902
	Other current liabilities	(7,435,908)	11,922,592
	Increase in Working Capital	$ 1,973,151	$ 4,038,385

**Restated as explained in Note 3 and reclassified to conform with account classifications adopted in 1978.*

See accompanying Notes To Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

BORDEN, INC.

For the Two Years Ended December 31, 1978

	CAPITAL STOCK ISSUED				
	Preferred Series B	Common	Paid-In Capital	Retained Earnings*	Treasury Stock
Balance, December 31, 1976 as previously reported	$673,637	$115,350,199	$186,957,873	$635,233,604	$ (4,419)
Cumulative effect of retroactive lease capitalization				(2,872,947)	
Balance, December 31, 1976 as restated	673,637	115,350,199	186,957,873	632,360,657	(4,419)
Net income				126,908,340	
Cash dividends:					
Common stock				(47,028,988)	
Preferred series B				(135,644)	
Preferred series B stock converted	(376,724)	376,669			
Common stock issued for exercised stock options		440,171	2,697,903		
Common stock issued under Management Incentive Plan		1,732	10,620		
Treasury stock issued under Management Incentive Plan			(257)		4,419
5% Convertible debentures converted		369,739	2,736,067		
6¾ % Convertible debentures converted		105,900	706,000		
Balance, December 31, 1977	296,913	116,644,410	193,108,206	712,104,365	—
Net income				135,827,373	
Cash dividends:					
Common stock				(51,977,577)	
Preferred series B				(90,180)	
Stock reacquired for acquisitions and treasury					(39,716,985)
Preferred series B stock converted	(54,866)	233	(381,641)		436,274
Common stock issued for exercised stock options		7,743	38,114		
Common stock issued under Management Incentive Plan		135	815		
Treasury stock issued under Management Incentive Plan			(785)		6,818
Treasury stock issued for exercise of stock options			(449,726)		1,876,205
Treasury stock issued for acquisition of businesses			12,030		4,506,252
Balance, December 31, 1978	$242,047	$116,652,521	$192,327,013	$795,863,981	$(32,891,436)

**Restated as explained in Note 3.*

See accompanying Notes To Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and all subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies approximates Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Intangibles—The excess cost of investments over net tangible assets of businesses acquired are carried as Intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October, 1970 are being amortized over a forty-year period.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined generally using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings—3%; machinery and equipment—7%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from normal retirements and disposals are credited or charged to accumulated depreciation, while gains and losses from other retirements and disposals are credited or charged to income.

The Company leases certain property and equipment (primarily buildings and transportation equipment) under operating and capital leases as defined by the Financial Accounting Standards Board in their Statement No. 13. Property and equipment meeting the definition of capital leases, are capitalized and accounted for accordingly (See Note 3), with the corresponding obligations carried as a liability. All other lease agreements are classified and accounted for as operating leases with payments expensed as incurred.

Income Taxes—The provision for income taxes includes federal, foreign and state and local taxes currently payable and deferred taxes arising from timing differences between income for financial statements and income tax purposes. These timing differences principally result from additional deductions available through the use of accelerated methods of depreciation for tax purposes.

Investment tax credits are applied as reductions of income taxes in the year earned.

United States income taxes have not been provided on undistributed earnings of foreign subsidiaries, or on the earnings of a Domestic International Sales Corporation (DISC) that are eligible for tax deferral, because the Company presently plans to reinvest such earnings indefinitely.

Pension Plans—Substantially all of the Company's employees in the United States and Canada are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expense for the Company's plans, determined for domestic employees in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974, comprises current service costs and amortization of prior service costs, effectively, over a thirty year period. It is the Company's policy to fund pension costs accrued for qualified plans.

Development and Promotion Expenses—Research and development expenditures are expensed as incurred as are advertising and promotion expenditures.

Earnings Per Share—Primary earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents (Convertible Preferred Stock and Stock Options) assumed outstanding during the year of computation.

Fully diluted earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents assumed outstanding during the year, as if the Convertible Debentures had been converted at the beginning of the period and after giving effect to the elimination of interest expense, less income tax effect, applicable to the Convertible Debentures.

2. FOREIGN AFFILIATES

After translation into United States dollars, the Company's proportionate share of net assets of foreign affiliates included in the consolidated financial statements was $237,000,000 at December 31, 1978 compared to $207,000,000 at December 31, 1977.

Realized and unrealized net foreign exchange losses aggregating $7,700,000 and $4,200,000, were charged against net income in 1978 and 1977, respectively.

3. LEASE CAPITALIZATION

Beginning in 1977 the Company adopted, prospectively, Statement of Financial Accounting Standards No. 13 (FAS No. 13) "Accounting for Leases." Effective January 1, 1978 the Company, under the provisions of FAS No. 13, adopted the statement retroactively. Accordingly, the financial statements of 1977 and all prior years have been restated. The result of the 1978 accounting change on net income and earnings per share for any individual year was not significant.

The result on the December 31, 1977 balance sheet was as follows:

	Increase (Decrease)
Property and equipment, net	$49,965,031
Debt payable within one year	13,516,109
Long-term debt	41,888,597
Other assets	402,275
Deferred income taxes	(2,202,750)
Retained earnings	(2,834,650)

The Company accounts for leases as described in Note 1. The following is an analysis of the leased property under capital leases by major classes at December 31, 1977.

Land	$ 236,290
Buildings	12,671,551
Machinery and equipment	123,790,879
	136,698,720
Accumulated depreciation	(69,803,748)
	$ 66,894,972

In January 1978, the Company purchased almost all the assets which were required to be capitalized pursuant to FAS No. 13. In connection therewith, approximately $64,300,000 of the December 31, 1977 amount described in Note 4 as capitalized lease debt was paid with funds which were provided through bank term loans, bearing floating money market interest rates and maturing in installments from 1981 through 1988. Therefore, capital leases at December 31, 1978 were immaterial.

4. DEBT, LEASE OBLIGATIONS AND COMMITMENTS

Debt outstanding at December 31, 1978 and 1977 is as follows (dollars in thousands):

	1978		1977	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
Sinking Fund Debentures:				
2⅞%, due 1981	$ 26,250		$ 27,500	
4⅜%, due 1991	24,000	$ 2,000	26,000	$ 2,000
5¾%, due 1997	67,500	3,750	71,250	3,750
8½%, due 2004	100,000		100,000	
Debentures repurchased	(14,138)	(3,843)	(8,402)	(4,428)
Promissory Notes:				
5⅜%, due 1981	1,300	800	2,100	800
8¼%, due 1985 in Swiss Francs	18,231		14,871	
7⅝%, due 1986 in Swiss Francs	12,154		9,914	
Other borrowings (at an average rate of 9⅜% and 11¾%, respectively	77,083	7,978	39,954	11,688
Bank term loans at floating money market interest rates, due in installments 1981-1988	65,000		—	
Convertible Debentures:				
6¾%, due 1991	29,188		29,188	
5%, due 1992	26,459		26,459	
Capitalized Leases (at an average rate of 7% and 8%, respectively) (See Note 3)	6,516	1,407	56,578	16,144
Current Maturities of Long-Term Debt		12,092		29,954
Foreign Bank Loans (at average rates of 15.0% and 11.8% respectively)		71,312		40,885
Total Debt	$439,543	$83,404	$395,412	$70,839

The 6¾% Convertible Debentures (Eurodollar obligations) are convertible into Common Shares of Borden, Inc. at $28.75 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1986.

The 5% Convertible Debentures (Eurodollar obligations) are convertible into Common Shares of Borden, Inc. at $31.50 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1987.

Aggregate maturities of long-term debt and minimum annual rentals under agreements classified and accounted for as operating leases at December 31, 1978 are as follows (dollars in thousands):

	Long-Term Debt**	Minimum Rentals On Operating Leases (See Note 3)
1979	$ 12,092	$14,652
1980	11,555	12,682
1981	46,643	10,694
1982	16,731	8,640
1983	26,772	7,345
1984 and beyond*	337,842	25,228

*Figures represent combined totals for all years.
**Net of debentures repurchased.

The average short-term debt, consisting of foreign bank loans and commercial paper, amounted to $99,600,000 and $39,800,000 during 1978 and 1977, respectively, with corresponding weighted average interest rates of 11.9% and 13.3%. The average borrowings and weighted average interest rates were determined using the weighted average principal outstanding and the actual interest expense incurred. Maximum month-end short-term debt was $127,800,000 and $43,400,000 in 1978 and 1977, respectively. Commercial paper issued and redeemed during 1978 was sold on the open market in the U.S. through money market dealers.

The Company has unused lines of credit for short-term financing needs, aggregating approximately $197,500,000 at December 31, 1978, with interest rates approximating the prime rate in effect at date of use.

The Company was guarantor of loans aggregating approximately $21,000,000 at December 31, 1978.

Pursuant to the arrangements covering the above lines of credit, and certain loan guarantees, the Company has agreed to maintain minimum average cash balances aggregating ap-

proximately $7,000,000 with various commercial banks. The Company attributes no cost to such arrangements as these amounts do not exceed balances which would be required for normal operating needs.

5. INCOME TAXES

Comparative analyses of the provisions for income taxes follow:

	1978	1977
Currently payable		
United States	$58,400,000	$73,000,000
Investment tax credit	(15,800,000)	(10,800,000)
Foreign	12,000,000	10,200,000
State and local	10,200,000	11,200,000
	64,800,000	83,600,000
Deferred		
Federal	14,000,000	7,600,000
State and local	1,600,000	1,000,000
Foreign	3,900,000	1,200,000
	19,500,000	9,800,000
	$84,300,000	$93,400,000

Reconciliations of the difference between the 48% U.S. statutory tax rate and consolidated effective book income tax rate are as follows:

	1978	1977
U.S. statutory tax rate	48.0%	48.0%
State tax provision, net of federal benefit	2.8	2.9
Investment tax credit	(7.2)	(4.9)
Foreign tax benefits	(3.9)	(3.6)
Other—net	(1.4)	—
Effective book income tax rate	38.3%	42.4%

The cumulative amount of foreign and DISC earnings on which United States taxes have not been provided aggregated approximately $57,000,000 at December 31, 1978, exclusive of those amounts which if remitted would result in no tax by utilization of available foreign tax credits.

6. PENSION PLANS

The charges to operations under the Company's United States and Canadian pension plans were $15,600,000 in 1978 and $14,600,000 in 1977. The actuarially computed value of vested retirement benefits under these plans as of January 1, 1978 determined on an actuarial basis exceeded the total pension fund and balance sheet accruals by approximately $75,700,000.

Operations were charged approximately $6,200,000 in 1978 and $5,300,000 in 1977 primarily for payments to pension trusts on behalf of certain employees covered by collective bargaining units who have not elected to participate in the Company's plans and for retirement allowances paid to former employees under arrangements in effect prior to the inception of the present plans.

7. SHAREHOLDERS' EQUITY

Each of the 58,678 shares of Preferred Stock—Series B, bears an annual cumulative dividend of $1.32, is convertible into 1.1 common shares, and is presently redeemable at the Company's option at $40. The redemption price will be reduced to $39 on July 29, 1979.

As of January 1, 1978, 537,389 shares of Common Stock of the Company were reserved for unexercised stock options at prices ranging from $19.44 to $32.75 per share. During 1978, options for 145,350 shares were granted at $29.56 per share and options for 20,125 shares expired or were cancelled. Options for 64,690 shares were exercised at prices ranging from $19.44 to $23.38 per share, leaving 597,924 shares reserved for unexercised options at prices ranging from $19.44 per share to $32.75 per share as of December 31, 1978. Included with the shares reserved for unexercised options are 175,886 options with stock appreciation rights attached, which permit the holder the election, in lieu of exercising the option, of receiving cash, shares or a combination of cash and shares. In addition, there were 609,516 shares available for future grants at that date.

At December 31, 1978, 64,546 shares were reserved for conversion of Preferred Stock—Series B. In addition, 1,855,214 shares were reserved for issuance upon conversion of the 6¾% and 5% Convertible Debentures discussed in Note 4 and 79,149 shares were reserved pursuant to the Management Incentive Plan.

At December 31, 1978, 1,211,857 shares of Common Stock were held in Treasury. These shares were reacquired during the fourth quarter of 1978 for issuance in conjunction with acquisitions consummated during February 1979.

8. OPERATIONS BY INDUSTRY SEGMENT

Information about the Company's industry segments and geographic areas of operation is provided on pages 32 and 33 of this Annual Report and is an integral part of these financial statements.

9. SUPPLEMENTAL INCOME STATEMENT INFORMATION

Set forth below is a comparative summary of certain expense items (dollars in thousands):

	1978	1977
Maintenance and repairs	$105,452	$ 91,282
Depreciation, depletion and amortization	87,486	78,099
Taxes other than income taxes	64,633	54,668
Advertising and promotion, including promotions of $83,573 and $80,378, respectively	139,729	149,330
Research and development	16,413	16,279

10. EARNINGS PER SHARE

The average number of Common Shares and Equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

	1978	1977
Common Shares	30,850,105	30,947,110
Convertible Preferred Series B	74,057	111,140
Stock options and incentive compensation	93,896	131,838
Total for primary calculation	31,018,058	31,190,088
Convertible Debentures:		
6¾%	1,015,239	1,031,712
5%	839,975	905,232
Total for fully diluted calculation	32,873,272	33,127,032

11. CURRENT REPLACEMENT COSTS (UNAUDITED)

In recent years production costs have increased as a result of inflation. Generally, the Company has been able to compensate for cost increases by increasing sales prices in an amount sufficient to maintain an approximately constant gross profit percentage on sales.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a greater capital investment than was required to purchase the assets replaced. The additional capital investment principally reflects the cumulative impact of inflation on these assets.

The Company's annual report on Form 10-K contains specific information with respect to year-end 1978 and 1977 replacement cost of inventories and productive capacity (generally buildings and machinery and equipment) and the approximate effect which replacement cost would have had on the computation of cost of goods sold and depreciation expense for each year.

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

	1978 Quarters			
	First	Second	Third	Fourth
Net Sales	$843,555	$1,018,410	$941,202	$999,392
Gross Profit	$156,289	$ 190,782	$175,677	$193,414
Net Income	$ 27,655	$ 40,245	$ 34,945	$ 32,982
Net Income Per Share of Common Stock:				
Primary	$ .89	$ 1.29	$ 1.12	$ 1.08
Fully Diluted	.85	1.23	1.07	1.04
Dividends*	$ .39	$ .43	$ .43	$ .43
Market Price Range:				
High	$ 31¼	$ 31⅜	$ 30⅞	$ 29¾
Low	28	27½	27⅜	25¼

	1977 Quarters**			
	First	Second	Third	Fourth
Net Sales	$823,478	$915,052	$852,590	$890,158
Gross Profit	$153,648	$178,131	$165,098	$173,432
Net Income	$ 26,473	$ 37,969	$ 33,947	$ 28,519
Net Income Per Share of Common Stock:				
Primary	$ .85	$ 1.22	$ 1.09	$ .91
Fully Diluted	.81	1.16	1.04	.88
Dividends*	$ .35	$ .39	$ .39	$ .39
Market Price Range:				
High	$ 35½	$ 35½	$ 36⅜	$ 32½
Low	31¼	31½	31⅞	29⅛

*Dividends on Preferred Stock—Series B were $.33 in each quarter during 1978 and 1977.

**Restated as explained in Note 3 and reclassified to conform with account classifications adopted in 1978.

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

153 EAST 53RD STREET, NEW YORK, NEW YORK 10022 212/371-2000

February 27, 1979

Board of Directors and
Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1978 and 1977, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied after restatement for the change at December 31, 1977, with which we concur, in accounting for leases referred to in Note 3. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse Co.

Executive Offices
Borden, Inc.
277 Park Avenue
New York, New York 10017
Telephone No. (212) 573-4000

Administrative Headquarters
180 East Broad Street
Columbus, Ohio 43215
Telephone No. (614) 225-4000

Annual Meeting
The Annual Meeting will be held on Wednesday, April 18, 1979, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey.

Independent Accountants
Price Waterhouse & Co.
153 East 53rd Street
New York, New York 10022

Common Stock Agencies
Transfer Agent & Registrar
Dividend Disbursing Agent
Chemical Bank
55 Water Street
New York, New York 10041

Debenture Trustees
2⅞% and 4⅜% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10017

5¾% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8½% Sinking Fund Debentures
Bank of America, N.T.&S.A.
San Francisco, California 94120

Exchange Listings
Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on exchanges in Basle, Geneva, Lausanne and Zurich, Switzerland.

New York Stock Exchange
2⅞% Sinking Fund Debentures, due 1981
4⅜% Sinking Fund Debentures, due 1991
5¾% Sinking Fund Debentures, due 1997
8½% Sinking Fund Debentures, due 2004

Date and State of Incorporation
April 24, 1899—New Jersey

Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:
Borden, Inc.
Attn. Mr. R. G. Tritsch
Secretary
277 Park Avenue
New York, New York 10017

Printed in U.S.A.

BORDEN, INC.

277 PARK AVENUE/NEW YORK, N.Y. 10017